The MAGAZINE of WALL STREET
and BUSINESS ANALYST

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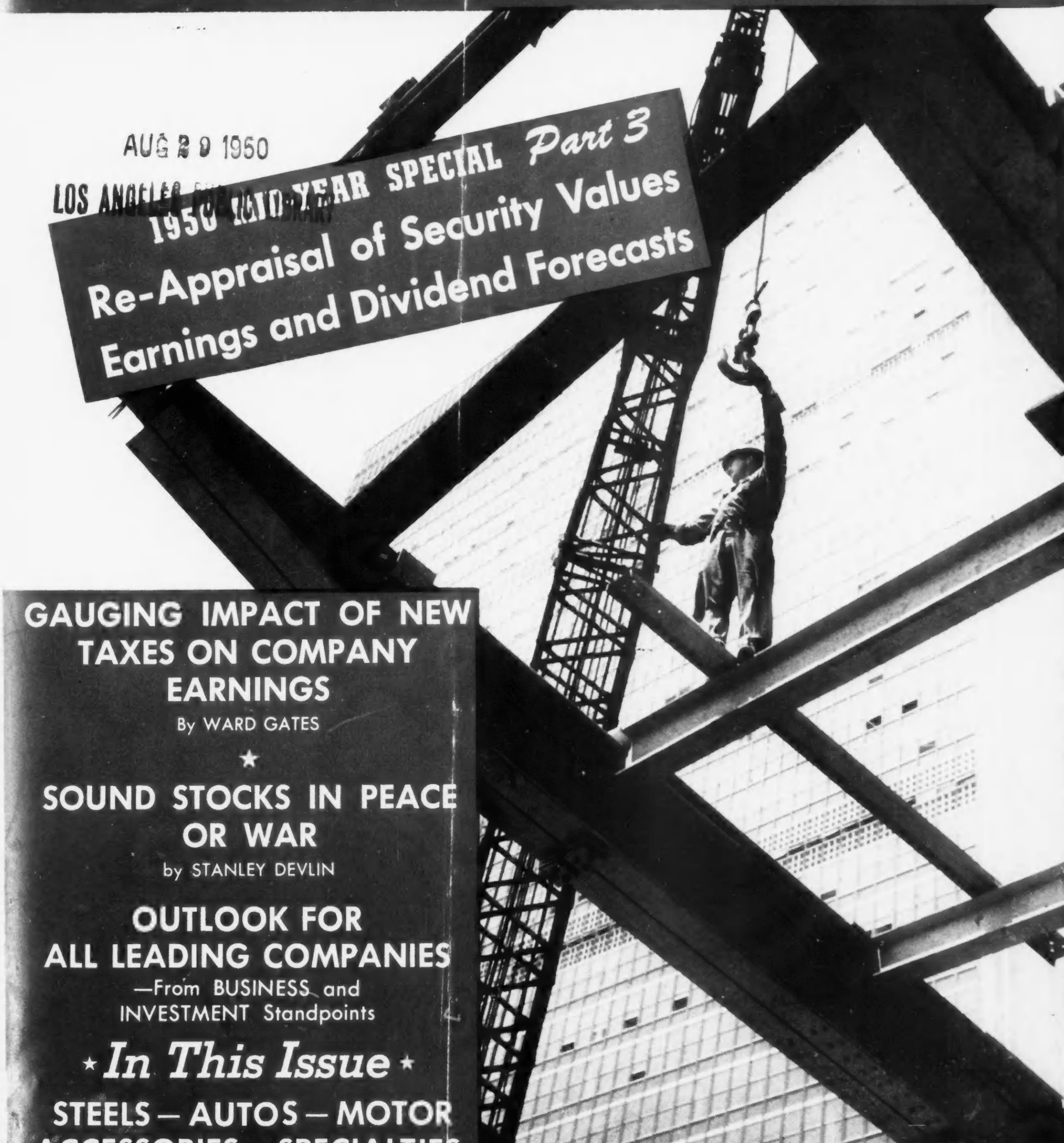

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Earnings and Dividend Forecasts

GAUGING IMPACT OF NEW TAXES ON COMPANY EARNINGS
By WARD GATES

★

SOUND STOCKS IN PEACE OR WAR
by STANLEY DEVLIN

OUTLOOK FOR ALL LEADING COMPANIES
—From BUSINESS and INVESTMENT Standpoints

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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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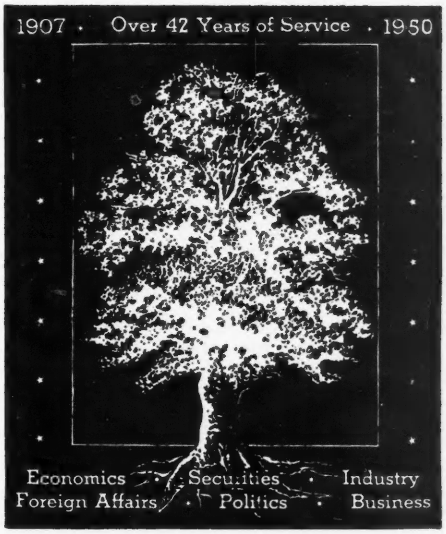
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

WAGES AND PRICES . . . Wage and price controls, we understand, are not an early prospect, yet the way things go, restraints against a new price-wage spiral should not be long postponed. They may be badly needed sooner than we think. One factor of course has been the price rise since the start of the war in Korea, starting in raw materials but with numerous finished product prices now bringing up the rear. Another is the number of new wage demands, and strikes for higher wages. A third reason is that under a semi-war economy, there will be more to spend and less to buy, the basic formula for inflation. All of which adds up to another wage-price spiral and finally of course to the straitjacketing of wages and prices as well, after considerable damage has been done. Why not forestall it?

We are no ardent proponents of wage-price control, and fully aware of its drawbacks. But we are even less resigned to another wage-price spiral, to a period of industrial turmoil which usually precedes it, to the economic and social damage it does, and the hardships it entails for so many who are unable to obtain redress, particularly the thrifty savers.

What we are in for is aptly evidenced by the latest CIO-UAW strike threat against the Ford Motor Company to enforce demands for higher wages "because of the spiraling cost of living," the first big union action based on the post-Korea price spurt. The present contract with Ford was signed last Fall and bars any review of wages before January 1, 1951, except by mutual consent. Characteristically, the strike threat was made without waiting to see whether consent might be obtainable to review the contract on an industrywide basis.

The danger is that such actions will multiply, particularly should the cost of living rise further. Clearly also, the union leadership generally is anxious to improve labor's position before a wage freeze makes this difficult or impossible. And the Administration seems loath to step into the picture at this time.

Yet it must be obvious to all that this is a poor time for the country to become once more entangled in acrimonious wage disputes and crippling strikes, and an equally poor time to permit inflationary spirals which will only complicate the defense effort by making it unnecessarily costly. In our view, realistic action to avoid this should not be delayed, regardless of political preferences.

Already we are faced with the painful fact that a 60-cent dollar buys considerably fewer weapons than nine years ago, if indeed we have even a 60-cent dollar. It is one of the weak links in our armor in switching to a war or semi-war economy. Hence the imperative need to counteract promptly any further inflation, to insist on highest efficiency of military expenditures, and on real economy in other Government spending. Neither of these is yet apparent, yet failure to do so, in the last analysis, is playing right into Russian hands. It is just as important to keep the nation sound financially and economically as it is to keep it strong militarily.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

HOT POTATOES . . . New Jersey potato growers, harvesting one

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty-two Years of Service"*—1950

of their finest crops in years, have been spoiling and dumping 40% of their produce so that these potatoes will never reach the market, it is reported. Stymied by weak market conditions and price competition from other potato growing areas, the growers have taken advantage of their price-support agreement with the Federal Government. On the Government's instruction, which has been buying up the surplus crops, the farmers dig the potatoes out of the soil, spoil them and then again spill them out over the land.

It's the same old nonsensical story of irresponsible waste of taxpayers' money, doubly ironical because it occurs at a time when the taxpayer is called upon to boost his enforced contribution to the Federal Treasury to meet the rapidly growing monetary requirements of war and defense. Never, one would think, could there be a better time to cut financial waste, to pare non-essential Government spending to the bone, to see to it that our farm policy is placed on a basis of common sense rather than determined by purely political considerations.

Alas, it doesn't look like it. We are informed that Government price supports for major crops in 1951 will be set at maximum levels if the international situation continues critical. Unless there is a favorable change in foreign affairs, congressional sources have been assured that supports will be kept at the present rate of 90% of parity. This means of course that that is exactly what will happen, for it is extremely difficult to foresee any great improvement in the international situation in the year ahead. Heavy defense spending, at any rate, will continue regardless of what happens in Korea. So will heavy subsidizing of farm crops, at the taxpayer's and consumer's expense, despite the prospect that in the existing and foreseeable environment of tension, there is little chance for any material weakness of farm prices.

The President in his mid-year report has suggested curtailment of non-essential Government spending "as far as practical." Revising farm price supports down to a level of common sense may not seem politically "practical," but it certainly is eminently necessary from a fiscal and social standpoint. Or else, spoiled potatoes may easily become "hot potatoes."

GOLD LOSS . . . International strains always result in sizeable changes in ownership of official gold stocks, and the Korean crisis is no exception. In one recent week the banking statistics reflected a loss of $101 million by the United States, an unusually large amount these days. And according to the latest weekly report, the loss was extended by another $81 million. Obviously foreign central banks converted more of their rising dollar balances into metallic reserve under earmark at the Federal Reserve Bank. The latest fall in gold makes a total of $253 million in recent weeks alone and of $474 million since the beginning of the year, of which $277 million or more than half have been taken out of the country in the past six weeks, or since the outbreak of the Korean war.

Despite official reticence, the nature of this gold movement is fairly well understood. Not only has it been facilitated by recent amassing of considerable dollar reserves of foreign countries in the United States, partly due to larger shipments and rising prices of strategic and other raw materials, but fears of inflation in the United States and, eventually, of a subsequent change in the gold-dollar relationship doubtless are responsible for the conclusion abroad that gold may be better to hold than a dollar deposit. This happened after the currency devaluations last September, when talk about a higher USA gold price was rife (which would be equivalent to dollar devaluation); and inflation fears due to heavy defense spending are again reviving this trend of thinking, unrealistic as it may seem at least as far as the foreseeable future is concerned.

This trend may continue, however, and if it does, no harm will be done, for our gold stock still amounts to a whopping $23.94 billion though that marks the lowest level since August 8, 1948. But that's still more than ample. And should the outflow of gold ultimately reach the stage of a genuine distribution of gold reserves, it would be a constructive and long-sought development. Foreign nations then would be in better position to meet the end of Marshall Plan aid in 1952.

Doubtless there is still in this country a good deal of the "hot" money that took refuge here way back in the 1930's. If such funds take flight from our shores, through security transactions or in other ways, the result will be further additions to official foreign gold stocks and the doors are of course wide open to such an eventuality which, we have an idea, would be far from frowned upon officially. But we also believe that for anything like a real flight from the dollar to occur would presuppose a far greater threat to our currency than anything now rationally foreseeable. Outbreak of global war conceivably might give foreign holders a severe scare but it would also face them with the problem of where to find a safe refuge for their funds. In a global war, there will be few of them—and the U. S. may still be one of the best and relatively safest.

The war threat, incidentally, has caused a fairly wide international flight from currency into gold, especially also from French francs and sterling currencies. Demand for the yellow metal—after subsiding greatly in recent months—has again reached record figures in the Far East, in Western Europe, North Africa and India, and free trading in gold has risen materially in virtually all markets. New increases in the free gold quotations naturally resulted.

The war scare and general fear of new world inflation led to a new rise in hoarding activities even in such countries as Canada and Argentina, while Paris early in August had a real hoarding panic as French farmers again offered premiums for gold—only a pitifully short while after they had finally become convinced that it might be smart to "dehoard."

To repeat, it never takes long for international strains to find reflection in gold markets and gold movements—whether justified or not. It is a normal development, and there is no reason to get jittery about it or endow it with undue significance.

For one, it proves that the metal, despite all its ups and downs since 1914, is more firmly entrenched than ever as a direct and indirect base for national currencies, and as a refuge for wealth. Since our gold holdings are so vast and preponderant, this is good to know.

As I See It!

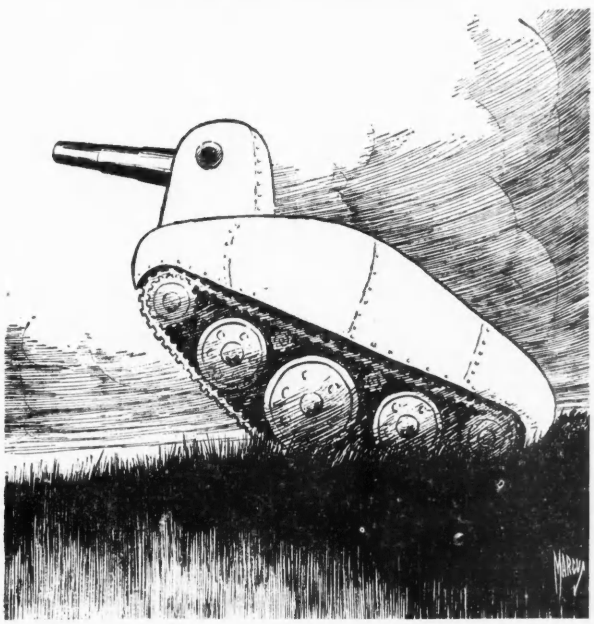
BY ROBERT GUISE

SELF-INTEREST BREEDS DANGER

With Russian divisions squatting in the center of Europe, armed to the teeth and ready to strike westwards whenever the signal is given, one should think that the Western European nations have an impelling reason to rearm in a hurry. Yet despite American prodding and generous help, the defense of Europe is being built up with amazing slowness and reluctance. This is all the more inexplicable as there was nothing secret or sudden about the development of the Russian threat which has been apparent for years. Nor is it rational to assume that Europe might have been taken in by Russian protestations of peace. What Russia's "dove of peace" looks like has been amply revealed in Korea and elsewhere.

In the light of this, one should expect ready acceptance of the fact that only Western European union on the broadest scale, political, economic and military, can offer a chance of averting the ultimate disaster of Soviet conquest. Churchill, sounding an urgent SOS at the Strasbourg meeting of the Council of Europe, knows it and so do some other European leaders. Still far too many, and particularly the Attlee government in England, seem completely void of realism in this respect.

"RUSSIA'S DOVE OF PEACE"



Marcus in The N. Y. Times

On the whole, Western Europe appears less alarmed on their own account than we are. Reluctance to face the grim realities has been said to be due to a feeling of profound war weariness, defeatism, unwillingness to sacrifice the newly-won postwar prosperity (thanks to Marshall Plan Aid) or to jeopardize socialistic "progress", affinity with communism of certain population segments in some countries, and finally a lingering hope that Korea may not, after all, spell total war in the end.

In France, feelings about the need to rearm quickly have become markedly firmer since Korea; the French have always been realistic thinkers and greater recognition of the needs of the day is discernible there. Under American prodding, even the reluctant British Government has now come forward with a new $9.5 billion rearmament program, grudgingly approved because it is thought that it won't entail an unbalanced budget. Nevertheless, it is British indecision and fear of British intentions and policies that continue to hamper the plan for a United West and the building of a European force sufficiently strong to meet Russian aggression successfully.

British timidity and lack of cooperation in turn apparently are largely the product of planned self-interest, a desire to subordinate the cause of Europe to Britain's special aims and interests. There could be no more dangerous course. Again Mr. Attlee and his government are shutting their eyes to the inexorable truth that Britain has nothing to hope either from Russia or from recognition of Red China. Their attitude in the matter of Formosa, for instance, can only encourage the Chinese communists to aggressive acts and amused contempt of Britain's appeasement tactics.

Mr. Attlee is not the first British statesman whose paramount interest in trade prevented him from acting firmly in a crisis endangering the world's peace. One need only remember Mr. Baldwin's failure to act when Japan moved into Manchuria in 1932. This gave Japan the green light and ultimately resulted in Pearl Harbor. In 1939, it was Mr. Chamberlain's appeasement of Hitler which encouraged the Nazis in their plans of conquest.

Today, Mr. Attlee, blinding himself to the inevitable, is following similarly dangerous opportunist policies. True, in two world wars, Britain has muddled through but look at what cost. In the present case it is clear that Britain, whether she fights or not, is bound to go down in any defeat of the Western powers. Only unity and close cooperation can avoid such defeat.

Apropos of this situation, there is a story going around about a conference between Messrs. Attlee, Truman and Stalin, in the midst of which a good fairy appeared, allowing (*Please turn to page* 596)

Evaluating Market Potentials

The general recovery trend in the market was extended over the past fortnight, chiefly under leadership of "war-baby" stock groups. It might well go somewhat further. However, vital uncertainties remain with us, centering mainly in taxes, price controls and hot or cold war developments. We counsel against expanding total positions in common stocks at this time.

By A. T. MILLER

Following the sharp June-July decline, the market has now maintained a recovery trend for roughly five weeks, as measured by the industrial list. By August 9, the Dow industrial average had got back to 217.76, compared with 224.35 immediately preceding American military intervention in Korea, and with its June bull-market high of 228.38. This rally was followed by a few sessions of minor retreat, on which the volume of trading tended to shrink; and the latter has now been followed by renewed strength, with some expansion of volume, taking the average to a new recovery high but leaving it, at this writing, still moderately short of the pre-Korea level.

Rails, with improved traffic prospects in a semi-war or war economy and largely immune to an excess profits tax, have been trending up since June 28. This, of course, is not a recovery but an independent rise, like that in a number of other stock groups regarded more or less as "war babies." It has taken this average to the best level in more than two years. For tax-threat reasons, the rally in utilities was the last to get going, and this average remains well under its pre-Korea level. However, it has edged up with some persistence during the last several weeks; and fared better in the latest week than in some time.

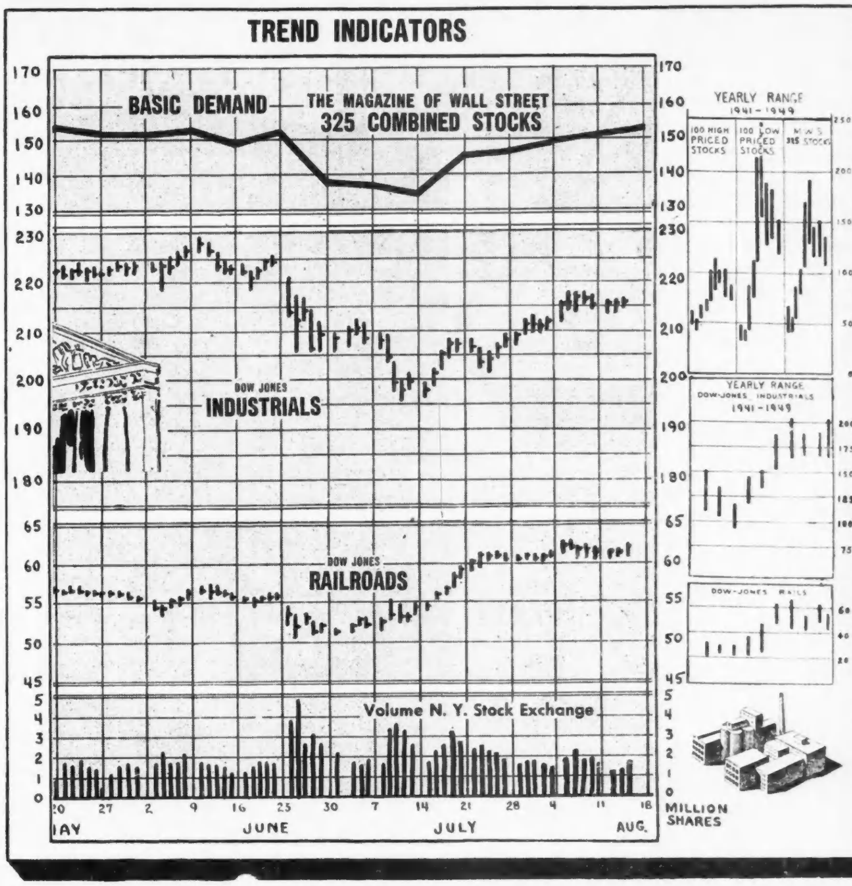
Market Of Stocks

In more than the usual degree, this is a market of stocks; in which new patterns of selectivity have been emphasized. Hence, the Dow averages cannot tell the whole story, anymore than they could on the one-year rise, led by good quality peace stocks, from June, 1949, to June of this year. As is implied by our broad weekly indexes, a daily average of all equities traded on the New York Stock Exchange—were one available—undoubtedly would show the market to be back not only to the pre-Korea level but to a new 1949-1950 high. This is accounted for mainly by special strength in a large number of stocks which fared either worse than average, or no better than average, on the upward trend up to the start of hostilities in Korea, but which investors and speculators believe to be relatively favored, for one reason or another, in a defense-dominated economy, taking volume probabilities and assumed tax status into account.

Thus, the stock groups now recording new highs for the year or longer are not automobiles, chemicals or most of the others which were "the fair-haired boys" for a long time prior to Korea-Day. In the main, they are such groups as coppers, oils, coal, distillers, sugar, rails, textiles, paper and tires. Department stores have recently joined the list, for any shift in trade dictated by semi-conversion of durable-goods industries will be in favor of trade volume in soft goods. So have farm equipment and fertilizer stocks, for the conditions indicated, including some price infla-

tion, are favorable to farm income.

However, "peace stocks" on an average have had a good recovery and currently show some tendency to enlarge it. The fact that the Korean war has been localized for some time now does not necessarily prove that it will remain so; but it is all that investors have to go on, and it has naturally reduced initial fears of a global war. Second thought has also led to the belief that defense needs—at least as presently projected — can be met without more than a relatively modest curtailment of output of consumers' durable goods. Indeed, at the moment investors seem to be taking a somewhat more cheerful view of nearly everything, including taxes; and are also putting more emphasis on assumed inflationary potentialities.



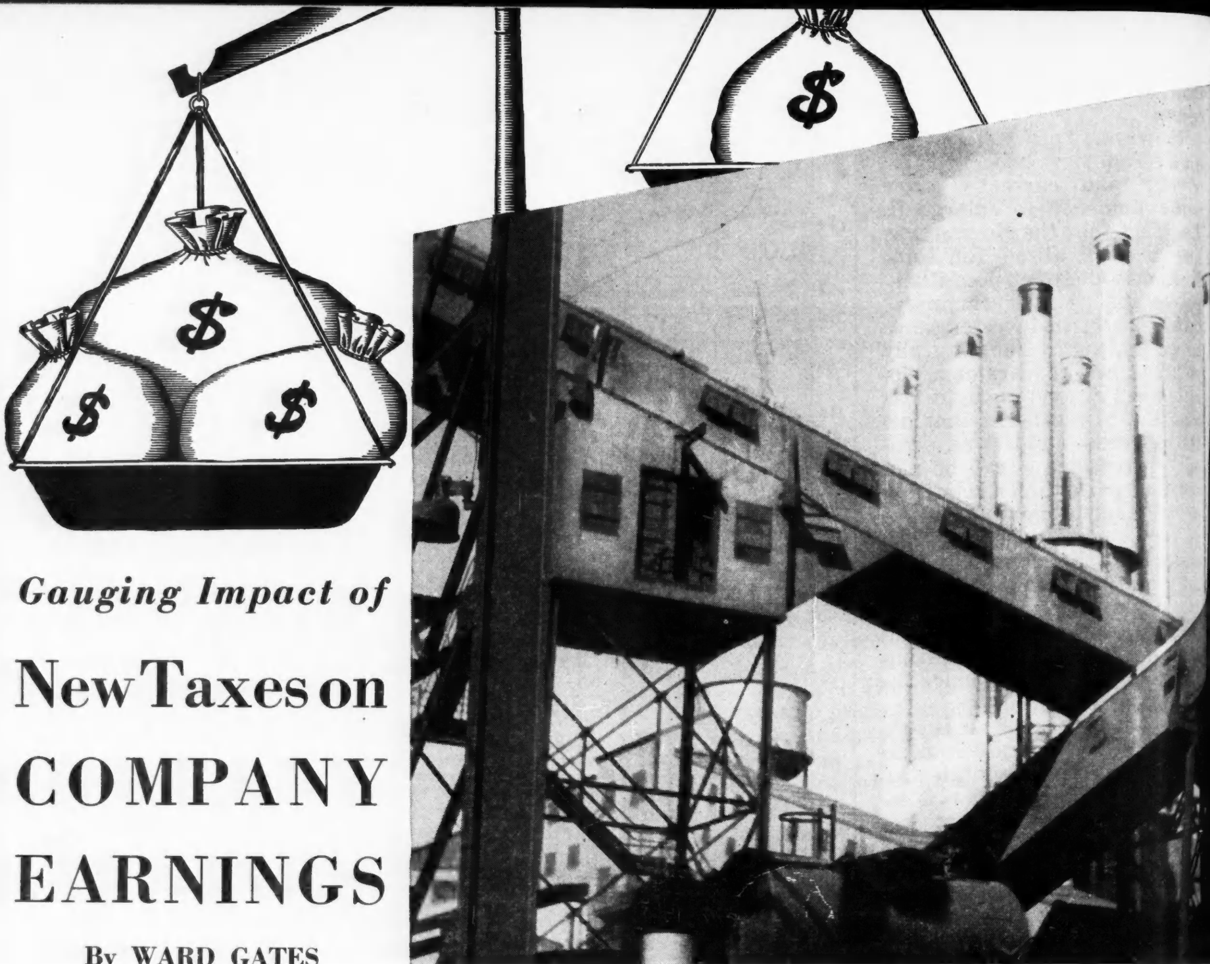
So far as the market is concerned, the moderate interim increase in the corporate tax rate, soon to become law, is already water over the dam. Nobody knows whether the 1951 boost will be fairly moderate or pretty stiff. Since this uncertainty will not be clarified for some time, the delay permits the market at least to hope for the best. It is conceivable, although time alone can prove it or disprove it, that there is basis for hope. On the one hand, the Senate Finance Committee will be the decisive factor; and it is dominated by men who have no intention of tax-wrecking private enterprise. On the other hand, pretax corporate earnings are now rising so strongly that net income might well remain at a relatively satisfactory average level, even after being pared substantially by next year's higher tax levy. (The subject of excess profits taxation is dealt with in a special article elsewhere in this issue.)

A study of second-quarter reports of 500 corporations shows total earnings up 50% over those in the recession-affected second quarter of 1949; and up over 29% from those of the satisfactory first quarter of this year. The total was $1,450,000. It would have been about $1,286,000,000 under a 45% tax rate; about $1,170,000,000 under a 50% rate; and about $935,250,000 under a 60% rate. The first two figures exceed the total of any prior quarter of 1949 or 1950, for these companies. The third would be slightly under the total of the poorest 1949 quarter. However, this is pre-Korea. The way production, trade and prices are going now, total corporate profits this year might well set a new peak, even with a 45% tax rate applicable in the second half year. Realization of this has probably gone some way in allaying apprehension about near term earnings potentials, just as anticipation of no more than modest cutbacks of civilian production has lessened fears of drastic sales declines in vulnerable industries.

Much Good Dividend News

The market is being aided by a continuing flow of good dividend news, yet total payments, when expressed as a percentage of earnings, remain much below what was considered normal before the war. In the light of present profits, the stream of extras is too routine to excite comment. On the other hand, a surprising number of companies have recently raised indicated regular dividend rates in the face a tax threat which they must certainly allow for. This implies confidence that the new rates probably can be maintained.

Readers who have followed our advices hold substantially invested positions, along with a fair amount of liquid reserves. They are in a position to regard interim fluctuations in the market with reasonable equanimity. We certainly would not employ the reserves now. Whether or not average stock prices go somewhat higher on this swing—and this is quite possible—the basis for a sustained general rise is questionable; and it certainly remains to be proven. As is proven by the recovery, fear was overdone on the June-July decline, but optimism could easily be overdone now. Profits could be really hit by a future combination of higher taxes and a price-freeze, the latter after wage boots have lifted costs; and in our situation with respect to Korea, Communist China and Russia, disagreeable developments remain possible and should be allowed for. Even when we win in Korea, at great cost, that in itself will settle very little.—Monday, August 21.



Gauging Impact of

New Taxes on COMPANY EARNINGS

By WARD GATES

Tax uncertainties today loom large in market and investment thinking, for the relationship between taxes, earnings and dividends is well understood even by the least sophisticated investor. Higher corporate income taxes of course are now a foregone conclusion. For the second half of the year, the Federal tax rate is likely to be boosted from 38% to 45% under the currently pending interim tax bill. Next year will bring a new overhauling of the entire tax structure, with enactment of excess profits taxes a distinct possibility.

While the timing, rates and tax bases are unpredictable, prospect of revival of EPT alone has been sufficient to stimulate a broad revision of earnings appraisals, however tentative. On the other hand, impacts of the interim tax bill can be gauged in more concrete fashion. What will they likely be?

There is a good chance that they won't be very severe. First of all, corporate earnings during the second half generally promise to hold up astonishingly well, and this in turn augurs well for dividend payments over the year's remaining months. Optimism in this respect is based on two considerations: (1) the excellent first half earnings which give a clue to what may be ahead if mobilization impacts remain moderate; and (2) the very real prospects that these will be moderate at least over the balance of the year.

Corporate earnings during the first half could hardly have been much better, broadly speaking. After taxes, the Department of Commerce estimates them at $9.2 billion compared with $8.2 billion in the same 1949 period. This is at an annual rate of over $18 billion which would compare with last year's of $16.7 billion. In the face of this, hiking the corporate tax bill by about $1.5 billion annually as proposed under the pending legislation would not seem devastatingly large. In fact it would mean a reduction of profits of only about 8% in the aggregate.

In a similar calculation covering first half earnings of 500 leading corporations, the National City Bank of New York finds that earnings are topping the first half of 1949 by 27%, and the second half by 20%. It further finds that if taxes were computed at the 45% rate, retroactive to January 1, the gains in net income over 1949 would be cut to 13% and 6% respectively.

No Drastic Decline

For the second quarter of 1950 alone, net income of the group topped the corresponding 1949 quarter by 50%; with taxes computed at 45%, the increase would be cut to 33%. Since total 1949 corporate profits were nothing to sneeze at (despite the recession during the forepart of the year, they were exceeded only in 1947-48), this would thus still leave a quite favorable picture.

But how about actual earnings prospects? Won't they be severely compromised by cutbacks and controls? The answer is: Probably not, at least not soon.

The military procurement program is getting under way only slowly, hence it will take months for the repercussions to be felt. Moreover, the arms program as presently contemplated is moderate enough to enable industry to take care of a very substantial consumer market.

Good Second Half Anticipated

Thus most industries that were doing well during the first half are expected to continue this performance while at the same time, a good many others which have been lagging may register improvement either because of defense orders or intensified consumer demand. Retail trade and rail equipments are cases in point. The former has been substantially stimulated by scare buying and retail demand should continue heavy. The rail equipment industry, lagging in the past, has suddenly come to life with a sharp snap-back in demand for freight cars, and with orders for ordnance impending.

In short, the prospect is that corporate sales and more especially pretax earnings will not be radically different in the final half; in some cases earnings before taxes may well be higher, reflecting the current feverish production and sales activity in many fields, not to mention rising prices. Nor will a tax boost from 38% to 45% cut too deeply into final net. If so, the pattern of larger dividend payments characteristic of the first half of 1950 may well continue. In the estimation of some observers, second half disbursements may expand to an all-time high.

To get an idea what a boost of the corporate income tax rate to 45% might mean, we have recalculated first half 1950 and total 1949 per share earnings of a number of corporations and the results are presented in the appended tabulation. It is on the whole quite a reassuring picture, with impacts in some cases virtually nominal. Take Caterpillar Tractor, for instance, which for the first half reported per share net of $4.07. As it happens, the company during the period deducted taxes at an effective rate of 38%. Earnings recalculated on basis of a 45% tax rate would be reduced to $3.76, or 31c a share less—hardly a drastic reduction.

Or take that industrial giant, General Electric, which reported first half profits of $2.68 a share. Examination of the tax charge against first half earnings in the income statement reveals an effective tax rate of 43%, obviously more than required. Calculated on basis of a 45% rate, first half net would come down only eight cents to $2.60. For the full year 1949, General Electric earned $4.36 a share after paying taxes at the 38% rate. On a 45% basis, 1949 earnings would have been reduced to $3.92 a share, a drop of just about 10%.

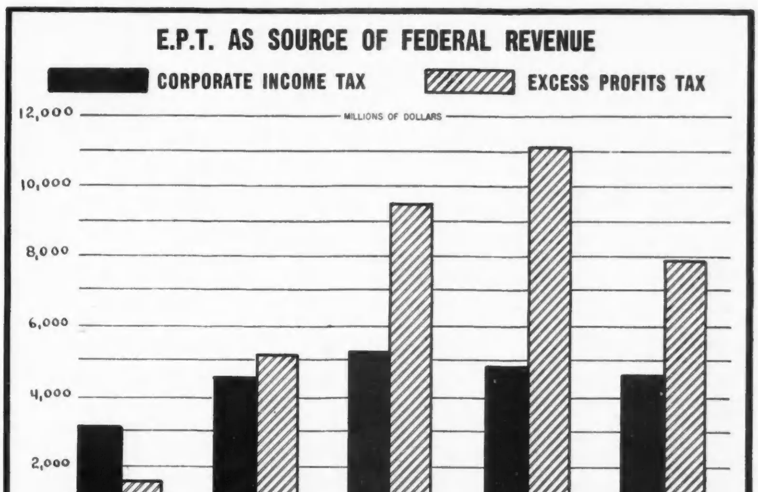
U. S. Rubber last year had an effective income tax rate of 32% and netted $5.62 a share. Assuming a 7% boost in the effective tax rate, net would have been $4.74 a share. For the first half of this year, the company deducted taxes at an effective rate of 40% and on that basis, per share net was $3.55. On a 45% tax basis it would have been $3.02.

Similar calculations, adjusted to effective tax rates, have been made in the case of the other companies listed in our table. The overall evidence is that a 7% hike in the corporate income tax rate, from 38% to 45% as currently proposed, will not imply any sharp inroads into share profits. In fact, where sales and profit margins have improved, net earnings – despite higher taxes – may well exceed those of the first half. Recent market recovery, in response to more sober appraisal of the nearby and medium term outlook, obviously reflects conviction along these lines.

There is considerably less visibility when it comes to gauging potential impacts of an excess profits tax, yet it is a consideration that has been paramount in producing a new market selectivity. Obviously the market has been patterning its thinking along the lines of EPT legislation contained in the Revenue Act of 1940, which gave the option of using average 1936-39 earnings or an invested capital base in calculating EPT exemptions. As far as the average earnings base is concerned, it is logical of course to consider more recent earnings as a base, say the average of 1946-49. And in view of generally high postwar earnings, it is conceivable that only a percentage, such as 75% of the average earnings, may be permitted as an exemption. In that event, companies which can show a high rate of earnings for these years would obviously be better situated than others.

Invested Capital Basis

The alternative method, based on invested capital, would permit a certain percentage, say 8% to be earned before the excess profits tax becomes operative. However, though certain companies may benefit from a large invested capital base, it is probable that most corporations will rely on actual earnings experience, particularly if excess profits tax rates should be less stringent than during World War II when the top effective rate was 85½%. A less severe rate is held as a distinct possibility as long as contemplated increases in defense spending remain



around presently envisaged levels.

The foregoing explains why projecting EPT impacts must necessarily remain a highly conjectural process—barring availability of definite basic data for such calculations. Yet in general terms, certain conclusions can be drawn, and have been drawn by the market as recent selectivity indicates.

Favored were industry groups known to have a large invested capital base, such as oils, steels, nonferrous metals, machine tool companies, rail equipments, paper, and outstandingly—the rails. Utilities, too, fall in that category but in their case, the possibility of a profits squeeze due to rising costs and compensatory rate increases proved the more dominant factor in market thinking, at least to date. Chances are that this attitude may change.

Rather more vulnerable to EPT, according to current thinking, would be many companies in the chemical, drug, automobile, building, finance and television industries. This reasoning has initially led to growing unpopularity of many former market favorites despite their normally excellent investment rating, and to a switch into the first mentioned categories and into the more obvious war beneficiaries, in some cases involving a distinct down-grading in quality. Whether such shifts will prove justified in the long run remains to be seen. The pattern of recent market recovery points at least to some revision of judgment.

Airline and aircraft shares have been in good demand despite the fact that these groups do not possess satisfactory EPT exemptions. Investor or speculative demand here was based not only on prospects of booming business but also related to the thought that these groups may get special tax treatment in view of the nature of their business. At any rate, aircraft manufacturers should receive such large orders that even with taxes high and unit profit margins low (as they will be under defense contracts), net profits may still be substantial. In the case of the oil industry, not only is invested capital large, but depletion allowances and drilling costs chargeable as current expenses should reduce the tax burden materially.

Earnings of Selected Companies, as Reported—and Recalculated on Basis of a 45% Tax Rate

	1949 Reported Net Per Share	1949 Net Per Share on Basis of 45% tax	First Half 1950 Reported Net Per Share	First Half 1950 Net Per Share on Basis of 45% tax
American Cyanamid	$ 5.28	$ 4.00	$4.55	$3.94
American Locomotive	2.50	2.14	1.16	.99
American Machine & Foundry	.26	.22	.41	.35
Caterpillar Tractor	4.89	4.48	4.07	3.76
Celanese Corp. of Amer.	3.19	2.12	3.61	3.27
Certain-teed Products	2.83	2.65	1.54	1.47
Chrysler Corp.	15.19	11.02	4.54	4.04
Cluett Peabody	1.93	1.62	2.52	2.22
Colgate Palmolive Peet	6.83	6.26	2.70	2.41
Continental Oil	7.48	6.89	3.55	3.21
Cutler-Hammer	4.11	3.61	2.16	2.04
General Amer. Transp.	5.62	4.91	2.29	2.07
General Electric	4.36	3.92	2.68	2.60
Grumman Aircraft Eng.	3.19	2.67	3.92	3.47
Gulf Oil	8.89	8.17	4.46	4.00
International Business Mach.	12.64	10.77	6.34	5.68
International Paper	7.12	6.24	3.74(a)	3.47(a)
Johns-Manville	4.83	4.27	3.27	3.03
Lehigh Portland Cement	6.67	5.92	2.94	2.66
Lion Oil	3.89	3.52	3.05	2.81
Minn.-Honeywell Reg.	3.03	2.67	2.08	1.87
Mohawk Carpet Mills	5.94	5.63	4.42	4.27
Monsanto Chemical	3.74	3.31	2.85	2.59
National Cash Register	5.92	5.04	2.88	2.67
National Distillers	3.03	2.71	1.27	1.12
Ohio Oil	5.13	4.68	2.67	2.41
Parke, Davis & Co.	2.54	2.30	1.84	1.63
Philco Corp.	3.17	2.89	3.86	3.82
Pullman Co.	2.42	2.23	1.95	1.73
Radio Corp. of America	1.58	1.43	1.40	1.27
Scott Paper	6.07	5.38	4.05	3.72
Standard Oil of Indiana	6.72	6.11	3.43	3.14
Union Carbide & Carbon	3.20	2.88	2.11	1.89
United Aircraft	3.31	2.90	2.18	2.00
U. S. Rubber	5.62	4.74	3.55	3.02
Worthington Pump & Mach.	5.11	4.45	2.49	2.17

(a) adjusted for 25% stock dividend payable Sept. 22, 1950.

Status of Growth Companies

There are certain groups, some already mentioned, which would be penalized under any EPT patterned after the former tax law, and these are understood to be seeking recognition of their problems in any new legislation. In this category are above all the growth companies, such as chemicals and television; and the regulated companies including telephone and natural gas pipelines. Utilities are in the same boat, if the average earnings base is applied. In their case, however, the idea is that a regulated industry is not supposed to have excess profits anyhow—and they hardly have. Higher taxes thus almost certainly would mean higher rates.

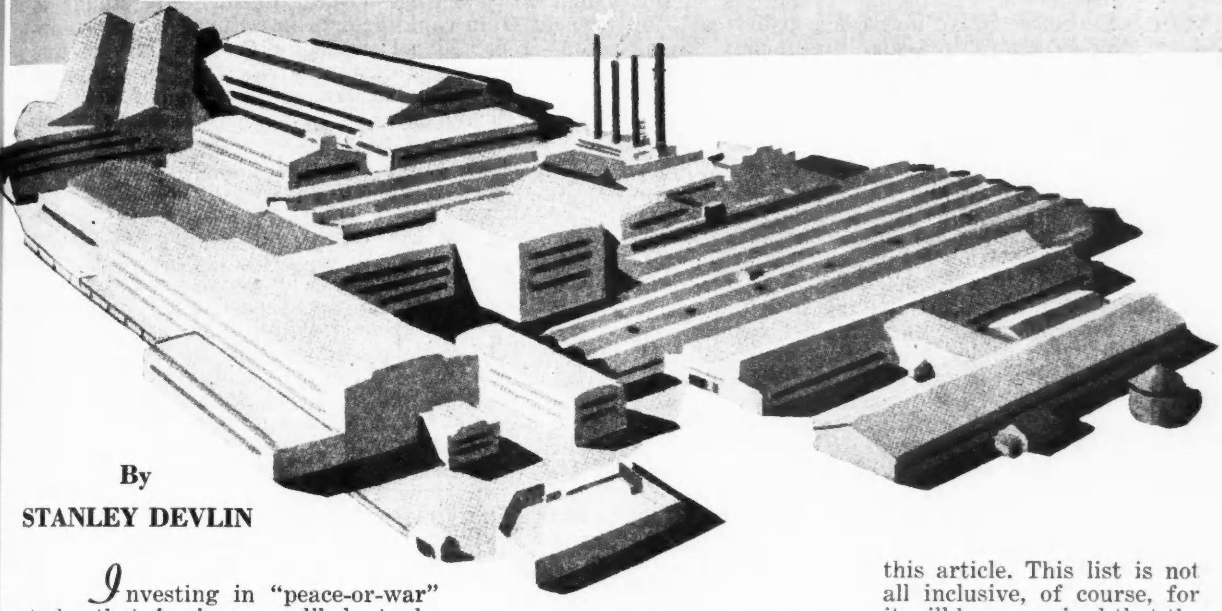
Natural gas pipelines are largely a postwar development and, like the electric utility and telephone companies, must still raise large sums for expansion. Anything that would reduce earnings would hurt such programs, and a more sympathetic tax treatment in their case is therefore probable.

When it comes to growth companies, the case is less simple, particularly where earnings growth has been a camparatively recent experience as in television. Preceding leaner years would pull down sharply the base for EPT exemption, aggravating the tax impact correspondingly. Similar cases can be found in the chemical industry, and in drugs where there has been a considerable earnings spurt in more recent years.

American Cyanamid comes to mind as a good example. The company during 1946-49 had average earnings of $3.75 per share, but reported $5.01 for the first half of 1950 and should come close to $10 for the entire year. Obviously, on an average earnings basis, the company would be poorly situated in view of the sharp uptrend in earnings; the impact of EPT would be terrific. Similar drastic examples can be found in the television industry where earnings began a sharp uptrend in 1949-50.

These industries, and others similarly situated, appear to have an excellent case for recognition of their problem under any new excess profits tax legislation, but while the question of liberalized treatment remains unresolved, it is bound to act as a drag on their shares. It highlights the fact that no EPT can be equitable unless adjusted to special situations, and such individual adjustment is difficult to carry out. Hence official reluctance to make haste with EPT legislation without prior thorough examination of what may be involved as well as pending better knowledge of probable revenues needs; hence also the growing thought that barring all-out war, it might be preferable to have another boost of the regular corporate income tax rate instead, that is beyond the 45% presently con- (*Please turn to page* 596)

SOUND STOCKS
...... In Peace or War ......



By
STANLEY DEVLIN

Investing in "peace-or-war" stocks—that is, issues unlikely to be severely harmed whatever the trend of foreign affairs—is like "having your cake and eating it too." Such a middle-of-the-road policy promises to have widespread appeal under prevalent conditions, where it is difficult to determine the more probable economy with which we are likely to be confronted. It is the purpose of this discussion to set forth a number of tests which may be applied in selecting least vulnerable industries as well as individual stocks regardless of whether the future holds in store total war or merely an armed truce.

What characteristics and operating conditions should the investor look for in seeking industries least vulnerable either with the world at war or under normal peacetime conditions? Perhaps the first test to be applied is to determine the extent of conversion that would be necessary in event of full scale hostilities. Those companies in position to turn completely to the war effort without changing their regular business, it seems reasonable to presume, would be least adversely affected. Typical of such a group would be electric utilities, retail trade, distillers, oil producers, paper, tobacco and rubber companies. All might suffer from increased tax rates, it is true, but generally speaking, their normal operations would be little disturbed. Unless a company can meet this test to a considerable extent, there may be some doubt as to whether it should be regarded as suitable for inclusion in the category being considered here.

Before turning to other qualifications that seem requisite, attention may be called to the accompanying tabulation listing representative stocks that appear to have merit under conditions outlined in this article. This list is not all inclusive, of course, for it will be recognized that the industries represented are sufficiently numerous to suggest that a great many stocks could be selected. This compilation affords an idea, however of the variety from which selections may be made.

In view of the fact that war—or even an armed truce economy— means inflation, the investor should appraise stocks in the light of this probable trend. Industries least vulnerable to inflationary forces, therefore, would be most favorably situated. Because the labor factor is especially low in such industries as tobacco, distilling, petroleum, meat packing and paper, a case can be made for companies in these groups. Utilities enjoy a relatively low labor factor in operating costs, but rising fuel prices and increased power plant costs tend to counteract the advantages of a high degree of mechanization. It must be said, however, that state regulatory authorities are becoming increasingly cognizant of the need for a sympathetic attitude toward utility rates under inflationary conditions. Hence, even though utilities were viewed with skepticism in past years when threatened with inflation, perhaps the threat of a "squeeze" is more apparent than real nowadays.

Varying Vulnerability to EPT

Possible vulnerability to excess profits taxes is an important test to be applied in the situation under discussion here. Some industries undoubtedly would be seriously handicapped by heavy wartime tax burdens unless exceptions were provided by Congress. In the absence of legislation imposing taxes designed to drain off abnormal profits arising from war business, it is difficult to say how this standard would

be applied today. It probably is unwise to assume that the tax provisions prevailing in the previous war will be reinstated without change when Congress considers such a program next year.

Corporate executives who have conferred with officials in Washington recently on pending measures are hopeful that—unless the world situation has been aggravated in the meantime—the forthcoming tax measure may be less onerous than the one which held down profits in the 1942-1946 period. Meantime, until sentiment in Washington crystallizes on this subject, the conservative investment policy calls for restricting selections to issues presumably having greatest immunity under regulations tentatively proposed in Congressional hearings.

Favorable Tax Base for Growth Industries?

Final determination of regulations governing so-called excess profits will have considerable bearing on the choice of "peace-or-war" stocks. It is possible that generous provision may be made by Congress for growth industries so that such companies may not be unduly penalized for having shown spectacular improvement in earnings in recent years.

Suppose we consider a specific example. Radio-television manufacturers have experienced phenomenal expansion under both war and peace conditions in the last decade and would be logical beneficiaries of an enlarged armament program if it were not for the possibility that tax liabilities might be governed by heavy assessments on profits exceeding, say, an average of 1946-50 net income. The effect would be to roll back earning power to a comparatively low level with the result that stocks in this group would seem overvalued in relation to probable earnings on such a tax base.

On the other hand, if provision were made in the law to soften the impact of EPT, television stocks and others similarly affected might have considerable appeal. The radio industry, for example, experienced execptional growth during the war and, with development on a broad scale of television, expansion in recent years has been even more rapid.

The growth factor is an important test to be applied in considering portfolio stocks. Thus an industry likely to expand either under war or peace conditions would rank high among investors. Chemicals and drugs and numerous specialties depending on patents presumably would be similarly affected. Until tax legislation finally takes shape, therefore, it will be impossible to say to what extent dynamic growth industries fit into the program.

Industries least likely to be dislocated by conversion to the war effort include: Oil production, distilling, utilities, retail trade, rubber, paper, textiles and apparel, tobacco, cement, meat packing, shoes, glass containers and perhaps brewers. Some exceptions might have to be made in three or four of the groups last named. Incidentally it should not be forgotten that oils enjoy special tax protection under provisions for depletion charges.

Even in industries ideally situated, it may be necessary to show discrimination. In the case of oils, for example, probably emphasis should be placed on domestic producers in position to benefit by enlargement of output or by widening of the spread between prices of refined products and cost of crude supplies. Among major domestic producers are Amerada and Barnsdall.

Domestic integrated companies include Phillips Petroleum, Cities Service, Pure Oil, Standard Oil of Indiana and Socony-Vacuum. Threat of aggression in the Near East may serve to restrain enthusiasm for Texas Company, Standard Oil of California, Gulf Oil and perhaps Standard of New Jersey, although the latter would have increasing appeal if demand for petroleum products gained such headway as to increase our dependence on South American production.

Taking a look at two representative oils, we note that Cities Service – which, incidentally stands to benefit from rapid growth in natural gas consumption – reported net profit for the first half of this year at the equivalent of $7.45 a share, compared with $8.15 in the corresponding period of 1949. On basis of the indicated $4 annual dividend rate, which may be supplemented by a year-end extra, the shares currently afford a yield of slightly more than 5 per cent. Moreover, the company's approximately one-third interest in Richfield Oil rapidly becoming more valuable gives the issue considerable speculative appeal.

Phillips Petroleum, one of major producers and developers of natural gas, reported net profit for the first six months virtually unchanged from a year ago at $3.64 a share. Management has been concentrating on reduction of debt now that expansion plans have been well advanced. An additional cut in bank loans of $3.5 million was made in July after reduction of slightly more than this amount in the first six months. On basis of the now indicated $1 quarterly dividend rate, the shares return the investor slightly more than 5¼ per cent.

The Case of the Distillers

Shares of leading distillers meet the "peace-or-war" test with something to spare. Inflationary forces would be distinctly favorable for this industry since inventories of aged whiskies would become more valuable than otherwise. Moreover, conversion to the war effort would present no problem if the industry were called upon again to produce alcohol for the Government to use in production of synthetic rubber or other war materials. Shift from whisky distilling to alcohol production in the previous war tended to strengthen the industry's market structure by removing threats of overproduction. Apparently distilling companies would not suffer seriously from excess profits taxes.

In the case of Schenley, for example, which may show net profit for the fiscal year ending this month of perhaps $7.25 to $7.50 a share, net income might not be seriously reduced if new EPT provisions call for a base of 75 per cent of 1946-1950 earnings. Such levies under consideration in Washington would not reduce earnings to any appreciable extent. Meantime, the forthcoming 25 per cent stock dividend apparently paves the way for a higher dividend through continuance of the $2 annual rate on the additional stock. On this basis, the shares would afford a yield of slightly more than 6 per cent.

Electric utilities experienced quite a setback in the market readjustment to prospect of a war economy. As a result, representative issues in this category afford a return of perhaps one per cent more than they did in early June before the recent market break. On this basis they appear to have appeal for investment not only under a war economy but in peacetime as well.

Anxiety over the industry's future presumably

stemmed from the threat of burdensome taxes and rising operating costs. These fears may have been exaggerated, since most utilities have strengthened their financial position and improved generating plants in recent years. Moreover, steps have been taken to guard against increased coal costs through inclusion of "fuel clauses" in contracts that permit automatic rate adjustments in line with price fluctuations of coal or oil.

Numerous electric utilities could be singled out for consideration in this discussion. Among those which come to mind are Boston Edison, Cincinnati Gas & Electric, Commonwealth Edison, Consumers Power, Houston Light & Power, Philadelphia Electric, Southern California Edison and Virginia Electric. In the case of Consumers Power, serving industrial as well as agricultural areas, earnings this year are expected to approximate $3.25 a share on current tax rates. Assuming a 45 per cent normal and surtax, net might be reduced to an annual rate of $2.90 to $3 a share.

With excess profits taxes effective next year, the company might be able to show earnings of $2.50 to $2.60 a share on increased capitalization if the tax burden, with inclusion of EPT, should approximate 50 per cent overall and if gross revenues should increase sufficiently to boost income before taxes by perhaps 8 to 10 per cent. Such a showing presumably would afford ample coverage for the current $2 annual dividend on which the shares currently yield almost 7 per cent. This sample suggests how stocks in this group may be appraised.

Retail Trade Field

In retail trade, preference probably should go to concerns distributing apparel and staples which might be least affected in an all-out war economy. Those placing emphasis on consumer durables conceivably might be adversely affected in a further tightening of credit restrictions or allocations of strategic materials. Companies such as J. C. Penney, Montgomery Ward, H. L. Green, S. S. Kresge and F. W. Woolworth are among those that might be least harmed. Grocery chains such as Great Atlantic & Pacific, Kroger, First National, Food Fair, etc., also probably would do reasonably well.

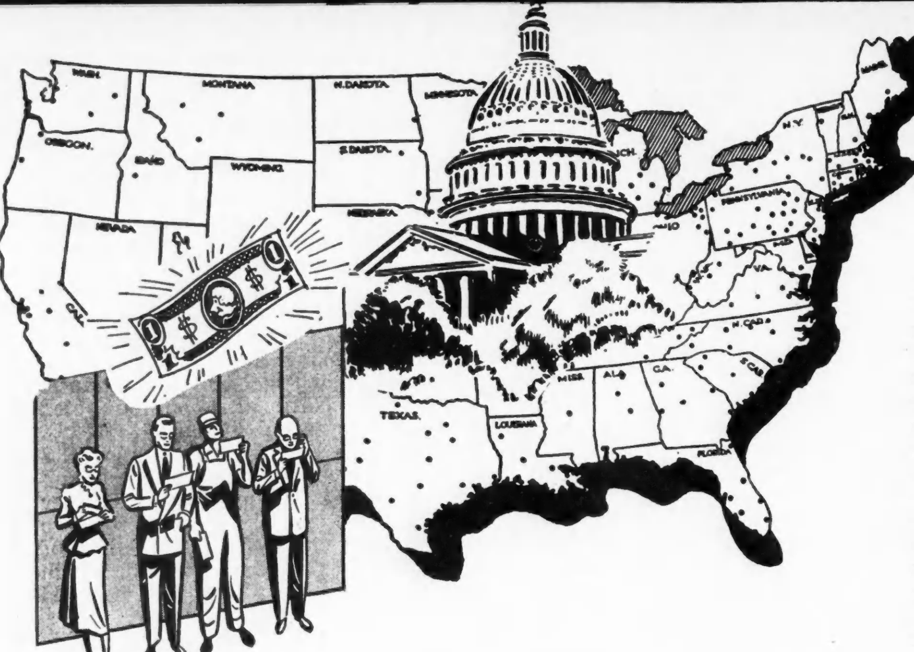
J. C. Penney reported a spurt in July sales of 21.8 per cent above the corresponding month of 1949 and for the first seven months, volume was up 3.7 per cent. Net profit for the first six months came to $2.13 a share, compared with $2 in the first half of 1949. On the indicated $3 annual dividend, which presumably would not be impaired by EPT, a yield of slightly more than 5 per cent is available.

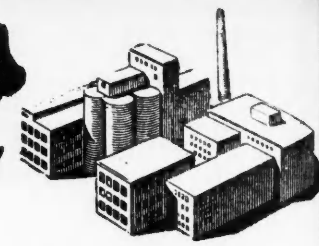
Any of the "big four" rubber companies merits inclusion in a list of this sort. Earnings prospects and tax considerations (*Please turn to page* 594)

Sound Stocks In Peace and War

	Average Net Per Share			Net Per Share					Price
	1938-41	1942-45	1946-48	1949	Interim 1950	Div. 1949	Div. Yield*	Recent Price	Range 1949-50
American Viscose	$1.89	$2.69	$ 9.27	$ 9.33	$7.51(a)	$4.00	4.5%	88½	89⅜-49⅞
Boston Edison	2.28	2.17	2.72	2.91	1.75(a)	2.80	6.8	40⅞	51 -40
Cinn. Gas & Elec.	.83	1.00	2.47	3.33	1.42(b)	1.40	4.5	30⅝	34⅞-26¼
Cities Service	1.32	3.72	11.70	14.87	7.45(a)	3.50	4.5	77⅞	80 -38⅛
Diamond Match	1.58	1.64	2.52	2.35	1.17(b)	2.00	4.8	41	41¼-31⅝
Distillers Corp. Seag.	.86	1.23	4.61	3.96	3.66(c)	1.05	5.0	21	22⅞-12⅞
Firestone Tire	2.67	6.55	13.50	8.82	6.68(e)	4.00	5.7	69⅜	69⅞-43
Freeport Sulphur	3.09	3.48	4.66	7.38	3.96(a)	4.00	6.0	67	68 -38
Goodrich, B. F.	2.86	7.13	16.81	14.36	3.69(b)	5.50	5.5	98½	100½-52½
Industrial Rayon	1.02	1.15	7.61	6.01	4.07(a)	3.00(j)	5.5	53⅞	56 -33¼
International Paper	1.01	.99	6.62	7.12	4.68(a)	5.00	8.8	56⅝	57¼-20⅞
Lone Star Cement	3.65	2.89	6.81	10.34	5.00(a)	4.50	6.7	66¾	81 -60
Montgomery Ward	4.14	3.82	8.47	7.13	1.40(f)	3.00	5.5	53¾	61¾-47⅝
Owens Ill. Glass	2.82	3.33	4.17	5.38	7.19(g)	3.00	4.4	67	73¾-49⅛
Penney, J. C.	2.00	2.13	4.80	5.08	2.13(a)	2.50	4.3	58	61 -42½
Phelps Dodge	2.37	2.51	7.29	6.85	3.54(a)	4.00	7.2	55	55⅞-36¼
Philip Morris & Co.	3.40	2.89	3.49	7.26	1.85(h)	2.87	6.2	47¾	57¾-37⅝
Phillips Petroleum	2.69	3.66	7.79	7.36	3.64(a)	3.00	4.1	73¼	74⅛-51⅜
Schenley Industries	1.13	3.60	9.74	6.73	5.67(i)	2.00	4.9	40¼	40⅝-22¼
Wrigley, Wm. Jr., Co.	4.13	3.18	4.46	6.30	3.41(a)	5.00	6.8	73	89¼-66

(a) First Half 1950.
(b) First Quarter 1950.
(c) 9 months ended Apr. 30, 1950.
(e) 6 months ended Apr. 30, 1950.
(f) Quarter ended Apr. 30, 1950.
(g) 12 months ended June 30, 1950.
(h) Quarter ended June 30, 1950.
(i) 9 months ended May 31, 1950.
(j) Plus 5% stock.
* Based on 1949 dividends.





President's Economic Advisers

Planning Socialistic Economy?

By JOHN D. C. WELDON

The question of what controls should be imposed on the national economy and how these, together with economic mobilization as a whole, should be administered, continues to dominate the domestic political scene. The President, along with his more ardent supporters, would prefer to rely on voluntary controls for the most part. Those who dissent regarding the sufficiency of such measures insist on all-out mobilization including immediate price and wage control, and this advocacy has been gaining headway.

In his message to Congress, the President dealt extensively with this problem. In his mid-year report, he reminds us that during World War II, we were forced to enlarge our military strength until it absorbed almost one-half of the entire national output. At that time, military costs were running at an annual rate of about $84 billion. Today a stepping up from the current rate of $13 billion to $20—$25 billion, and eventually even to $30 billion would still barely exceed 10% of total national output. Hence in the present more limited situation, the President averred, we should with more limited measures be able to meet our military requirements *and* avoid inflation.

The comparison is timely, not alone because it illustrates the complete absence of an analogy between the two situations but because it places in a new light the constant official urge towards utmost industrial and economic expansion. This urge is found in the President's message; it is found in his mid-year report and in that of the Council of Economic Advisers, headed by Leon H. Keyserling. Even more so it is advocated by the latter in various speeches and comments, which in itself is nothing new, for Mr. Keyserling right along has been the Administration's foremost apostle of expansion. More recently, however, he has upped his goal.

In a recent radio speech, he raised his production goal to $350 billion by 1955 as compared with his earlier figure of $300 billion by 1954, and with current annual production volume of $270 billion. At the same time, he expressed the belief that there is too much talk and argument about economic controls so that we are in some danger of neglecting the even more important problem of production and more production. Mr. Keyserling is convinced that we can expand at a far more rapid rate than all past calculations. To achieve the higher goal, he says, industry should redouble its efforts to expand and modernize, and the Government should concentrate on stimulating this expansion (sic).

The latter has an all too familiar ring. One can wholeheartedly agree with the President and Mr. Keyserling that in order to checkmate the Kremlin, we must keep our domestic economy strong and sound. Also, we find it fortunate that barring total war, there is a good chance that we may boost output within a few years to a point where, despite the superimposed defense requirements presently indicated, supply and demand may once more be balanced. That would be the best to be hoped and it seems to be the aim of top policy. The question is: Can we achieve it in the face of an all-out industrial expansion drive at this time? More importantly, can we achieve it without sliding down the road to socialism?

A basic point to consider is this: Industrial expansion of any magnitude not only takes time but it also uses up huge amounts of the very raw materials that are now scarce, and the availability of which also determines the volume of durable consumer goods production. Thus if the expansion drive is undertaken on any large scale, sooner or later we shall face the alternative of having to cut down civilian output even more than would otherwise be

necessary in order to divert critical raw materials to expansion—but without any chance of getting any civilian or military benefits from such increased capacity for a few years.

What that would mean is pretty obvious—more inflationary pressure, more controls and restrictions, more regimentation. Yet the biggest task, even in Mr. Keyserling's estimation, is to hold back inflation.

Gap Between Purchasing Power and Civilian Supply

What's more, a $350 billion a year economy doesn't mean a thing if it is in terms of dollars of lower purchasing power. And it would be just that, for it is obvious enough that tax increases and credit curbs alone will not eliminate the threat of a gradual increase in the price level. The effectiveness of these measures, since they will only be applied as much as politically feasible, will largely depend on the gap between purchasing power and the supply of civilian goods. Adequate maintenance of the latter thus is imperative under present conditions; their production should not be curtailed to promote an expansion program that, though now ostensibly tied to a war economy, in the past was closely related to a welfare economy program. Obviously there is need for some expansion now, but we should beware lest we are carried away by an economic dream, or by purely political aspirations.

While "business as usual" is dumped out of the window, "politics as usual" persists. We are forced to this conclusion every day as we watch the "battle for controls" unfolding in Washington. Admittedly the best chance to beat inflation, apart from assuring an adequate civilian goods supply, lies in measures to syphon off purchasing power; and admittedly, any anti-inflation program cannot be won by delaying action, but only by prompt and direct attack. Yet there is delay, and it seems due to very real political pressures on Congress and the Administration.

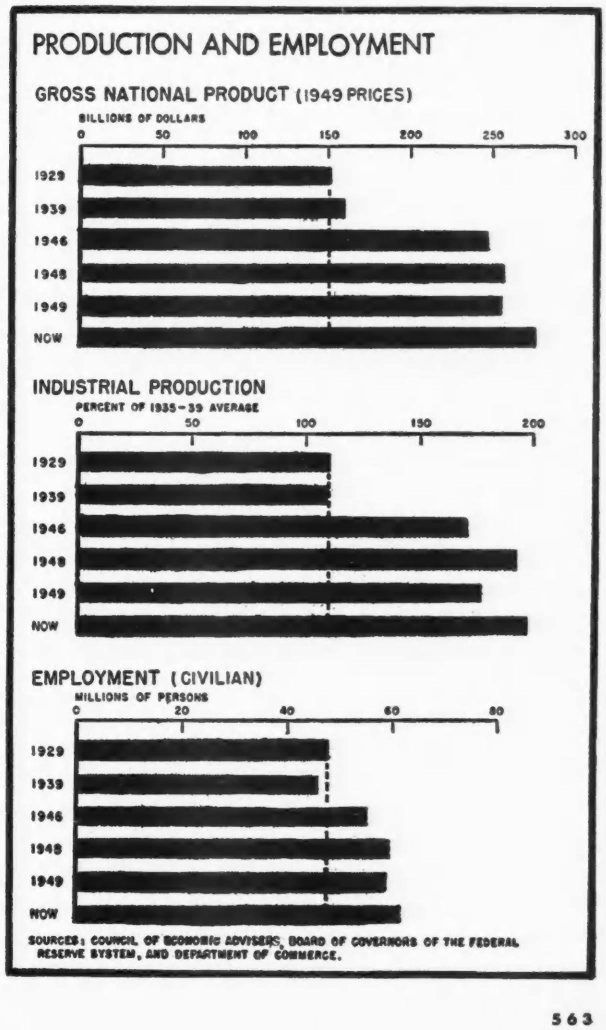
Farm and Labor Policies

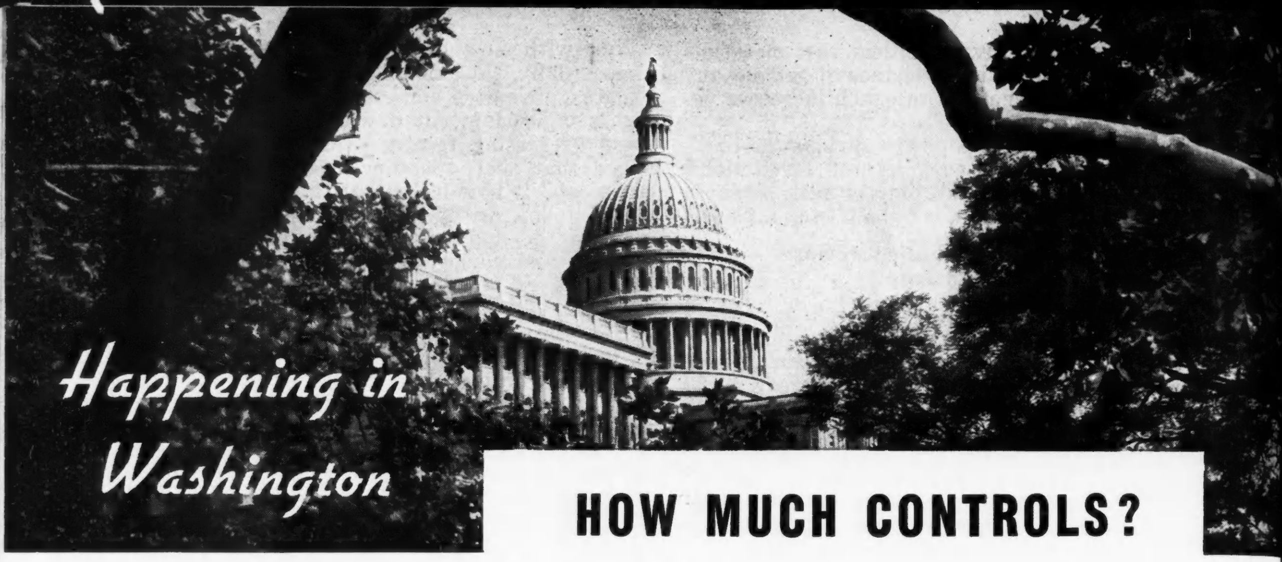
Congress apparently has effectively blocked any action that could conceivably bring down farm and food prices at this time by releasing Government surpluses. It is but natural that any such delay in neutralizing part of the country's purchasing power and brake the rising food price trend can only play directly into the hands of union leaders who are desperately trying to strengthen the position of labor before any price and wage freezes can be put into effect,—to seize upon the emergency as a means for improving labor's purchasing power in relation to industrial profits. This is just about on a par with a business man hiking his selling price to assure himself a profitable price base in the event of a freeze—and he is justly condemned for it.

The President in his mid-year report pleaded with labor to go easy on wage increases and to stop strikes. But his plea lacked the forcefulness displayed in the presentation of other parts of his emergency program. The President's Council of Economic Advisers in its mid-year report did not recommend wage and price controls, and in its detailed analysis of economic forces found no need for a total war economy. All this makes it fairly obvious that whatever standby powers Congress, prodded by the "all-outers," may vote, they may not be used for some time, perhaps not until after the election. By then, it may be quite late.

For with new expenditure projects coming up almost daily, no amount of taxation will close the budget gap unless non-essential Government spending is vigorously cut down. But here, too, politics is an overriding factor. Though the President has urged that such spending be trimmed "as far as practical," it now looks that this advice will need a lot of following up. Left to itself, bureaucracy is not likely to find many cuts as "practical"; and the number and variety of projects that can be found in some way "essential" to the war effort is really amazing.

Yet were it not for politics as usual, there would be excellent and practical opportunities for cutting outlays for rivers and harbor work (a traditional political pork barrel); for reclamation and public power; for dollar-matching grants to local governments; for farm price supports, for home financing, and for numerous other Fair Deal schemes in the field of socialistic planning, the bulk of which should now be definitely forgotten. They certainly aren't "practical" at a time when taxes must be raised to the breaking point to maintain a semblance of fiscal health. Public works particularly deserve a drastic cut; on the present scale they represent an inexcusable waste of money, energy and materials badly needed for more essential purposes. Unfortunately, when it comes to political (*Please turn to page* 596)





HOW MUCH CONTROLS?

By E. K. T.

MILITARY aid by others to the United States in the Korean war wasn't motivated entirely upon altruistic purpose. The Filipinos have several items of major legislation pending on Capitol Hill and their fate was being seriously threatened by failure of the Quirino government to act with dispatch. The new island democracy wants funds for war damage claims (World War 2) payment substantially upped, wants to defeat legislation which might encourage larger trade with South American countries producing goods which make up major Philippine exports. It was only after frantic cable exchanges that Manila offered to put troops in the field, equip them.

> ### WASHINGTON SEES:
>
> Now that President Truman will have all the power to control the civilian economy that he possibly could use, the one remaining question in that area of thought is how much he should use. Several considerations must be weighed, and there is a basic point of conflict arising out of the fact that the White House may read into the sweeping action by congress a mandate to go farther than the President believes is necessary. It is certain that Capitol Hill was motivated, in part at least, by a desire to place the onus upon Mr. Truman, force him to proceed at his own peril: if he moves into civilian control too slowly, it will be "too little, and too late"; if he goes all-out too suddenly he may, he knows, do unnecessary and irreparable damage to the domestic economy.
>
> It is agreed all around that today's situation, from the standpoint of need for curbs on business and industry, is not comparable to that of the early days of World War 2. Even in the 1939-1940 pre-war days, there were shortages of many critical materials for which no substitutes had been developed, almost no war plant, few shipyards tooled to handle huge craft contracts. A start from scratch was required. Today there is no real shortage that can't be overcome by the process of stepping up production or by relatively minor plant expansion; supply lines haven't been cut off, and this country isn't being called upon to fight a global war and feed the world simultaneously.
>
> The unanswered question is how much material and manpower the war may take. Upon the answer to that query depends how much will be left for the home front and, as a logical consequence, how much control.

AUSTRALIA acted much more promptly, but even Prime Minister Menzies on his recent trip to the United States admitted there was a practical reason. More closely allied to the United Kingdom than many of the dominion and colonial countries, Australia is deeply conscious of the true meaning of United Nations solidarity. Menzies didn't ask outright for financial aid for his country's war effort but he proved to be an outstanding salesman of world friendship to visit these shores in recent months. He made it clear that the costs and the risks are high, his country small in terms of population, close to the fighting front. Washington "caught on."

SENSITIVE point in considering offers of aid from other countries (or demanding it), is whether that assistance should be declared or tacit. It is a mixed diplomatic and military question which the affected branches of government are carefully examining in meetings at the White House. Countries where red infiltration has been constant cannot afford to thin protection at home, may best build walls in their own lands. Meanwhile many are chafing under the criticisms of falling down on their job of UN cohesion. Unless and until the Kremlin acts on a wider front, these countries may be advised to hold off, but keep their powder dry.

LARGER question of burden-sharing among the United Nations will be presented eventually, maybe sooner than most expect. When the fortunes of war switch and the 38th parallel is reached on the return trip, UN must decide whether to stop at that point or go into Northern Korea occupation. When the immediate danger lessens, there may be less urge to cooperate and policy disputes within UN will multiply.

As We Go To Press

The decision to lend 100 million dollars to Franco's Spain had none of the present or future commercial significance that attaches to the loans given other Western European countries. Spain has recovered from its own civil war, came out of the 1939-1946 holocaust without scars. The money is only partly for economic rehabilitation therefore; it's a military matter, bringing Spain within the arms program. That country's payoff will be bases, when military material moves.

This loan was one of the most contested "hot potatoes" in the entire Marshall Plan program. The State Department, openly at times, and quietly behind the scenes on othr occasions, fought it. Secretary Dean Acheson was confronted by the fact that United Nations wants no part of any country that took sides with the Hitler-Mussolini faction. He knew a loan would be preliminary to military assistance, that UN members would be asking him pointed questions. Acheson questioned whether Spain would be a good business risk. Franco replied that New York private bankers seem to think so, have made him big loans.

New controls over government-insured home mortgage credit made effective by Presidential order, will result in a minor boom for smaller housing at the expense of sales in the larger residence field. Equity requirements are increased as the size of the transaction becomes larger on a bracket stage which increases the proportion as the amount involved moves upward. RFC will cooperate with the Presidential directive by speeding the sale of the home mortgages it owns. But there won't be any "dumping"; the federal agency is confident the market will absorb all at the present discount rate, has no intention of making any change until shown otherwise.

Good gauge to watch for the rise or fall of Administration optimism in the Korean situation will be the White House attitude toward use of old-line departments to direct civilian mobilization. So long as existing departments are left with the job of preparing for or administering controls, it can safely be assumed that Mr. Truman is getting good news from the battlefront and from the home front. If, and when, replicas of the wartime alphabetical agencies begin to appear they will be the shadows of unfavorable happenings.

The records and the experiences of World War 2 now repose in several peacetime agencies. Labor Department has the material dealing with manpower Agriculture with food production, Interior with natural resources, Commerce with business generally, including priorities, allocations, and rationing. Over all is Dr. John Steelman, "Assistant President." Steelman ran the National Security Resources Board as an interim chairman, now is passing on leftover chores to Stuart Symington.

White House advisers agree the job of domestic mobilization can certainly be carried on in its preliminary stages by the existing agencies; must, for the reasons stated above. And it can remain in such custody unless the war gets tougher than now expected, or the Cabinet members heading the several groups begin scrambling for top operational post. In that event, NSRB will expand from a planning to an operating agency, first subordinate the present agencies, then combine them into a new WPB, OPA, Manpower Commission, etc.

The changeover would not give business and industry the trials and tribulations that came with World War 2 building of agencies from the bottom up. It would be accomplished by lifting whole units, including personnel, and putting them under new commands. Contractors would continue to do business with the same people but wouldn't be delayed while agency heads compromise issues over authority. Orders then would flow

directly from Symington to personnel in charge of a given problem not be required to go through a middle-man, the Cabinet officer.

As forecast earlier, first problem showing up is that of manpower. It was the weak link last time. Calls of National Guard and reserve units have raised the question of industrial and agricultural deferments. The defense agencies wrote their own ticket with Secretary Louis Johnson's approval, and exemptions ran closely parallel to those of Selective Service Headquarters performances in the big draft. Symington has other ideas. There, again, comes the clash between the military and the civilian forces.

Johnson holds that the military needs must control while Symington has his mind centered upon production. The defense agency head received the first nod of approval from President Truman, but that clearance can be put down as temporary. The Johnson proclamation flatly states manpower shall be his exclusive jurisdiction. Symington knows that won't last and is continuing his surveys, eventually will place before the President a new program with supporting argument. He is expected to say certain industries are essential, must neither be sapped by taking individuals from an "assembly line," nor kept in a state of uncertainty on that score. Defense agency contention is that the job of the individual, not the industry that engages him is determinative.

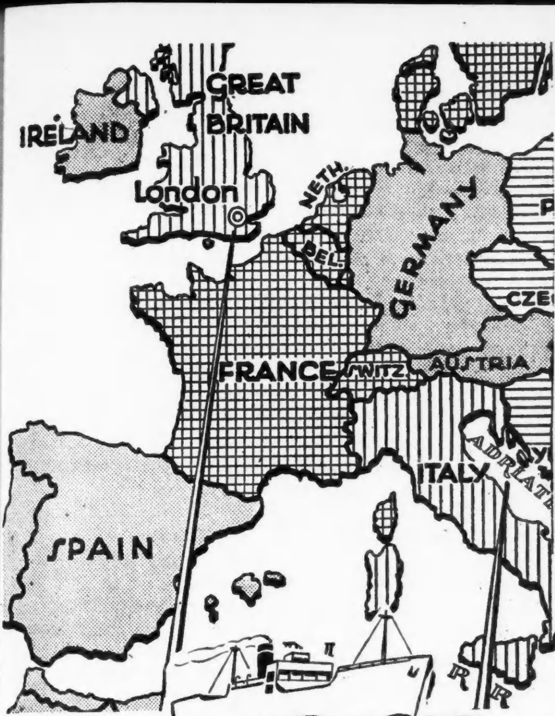
On the political front, "The Machinist," union mouthpiece generally followed by the scores of other publications of organized labor has taken a step which experienced politicians regard as virtual concession that Senator Robert A. Taft will be re-elected. The newspaper is leading a movement to force a congressional investigation of campaign contributions to the Taft war chest. Offered as Exhibit A is "proof" that a single contribution exceeded 1 million dollars. Dead give-away is that violations of the "clean politics" law affecting excess campaign expenditures are made by the senate only in connection with seating a successful candidate against whom the charges are made. That's well known to the political writers on the union sheets.

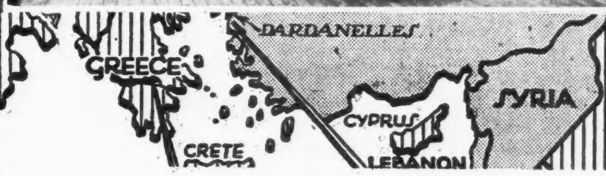
But that isn't the only political activity. The Democratic National Committee has given up rented quarters and has purchased a downtown office building, evidently intending to be around Washington for a long time. Either by personal choice or party designation, Rep. Joseph W. Martin is pounding out statements predicting victory for the GOP in November, while the democratic congressional committee has issued a pamphlet blaming the republicans for the war in Korea. The CIO's appeal for "politics as usual" obviously wasn't a needed urging in the party circles.

The air transportation industry may be the first to feel the effects of the war industry-wide. On President Truman's desk is a proposal that he issue an Executive Order transferring the Civil Aeronautics Administration from the Department of Commerce to the Department of Defense, militarize it by putting its key officials in military rank. CAA and the Air Corps duplicated at many points such as navigation, plane identification, and tower controls during the last war and the new plan seeks to avoid a repetition, meanwhile saving money and utilizing a trained force.

Home front controls will be carefully weighed before made effective, and doubts will be resolved against moving in fast, Washington is convinced. The attitude of President Truman toward the extent of legislative need is one reason, of course, but there are others. The scope of compulsory "pinch" naturally will be related to the requirements of the military, current and prospective. They will be kept in line; and "in line" with the Korean situation means an altogether different thing than "in line" with the World War meant.

Totaling all the funds the President has asked to date or has hinted he will ask later would buy not more than 15 per cent of the national product. In World War 2, the military needs soaked up almost half of the national product. To insure a free flow of 15 per cent will require much less constriction, obviously, of the domestic economy.





Korea Speeds Europe's Financial Adjustment

By V. L. HOROTH

Someone remarked the other day that all the discussions of domestic and international problems and affairs should be identified as to whether they were "B.K." or "P.K."—"Before Korea" or "Post-Korea." Outwardly this may seem just another witty observation. Unfortunately, it is not.

The world became a different place after Hitler's attack on Poland in August 1939. Without necessarily plunging the world into another world war, the communist attack across the 38th parallel on June 25 has similarly knocked into a cocked hat so many assumptions and delusions about the future and given a new twist to so many political, economic, and financial developments that the "Post-Korea" world looks quite different from what it was these past five postwar years, or what, a month or two ago, it was expected to be.

Take the United States. We are just beginning to come out of the daze from the discovery that with the exception of the atomic weapons, we have been unprepared militarily, that we may have been spending money on wrong weapons, and that we might be unable to oppose the Russians successfully should they decide to overrun Western Europe. We are suddenly aware that the speedy conversion of our "potential" strength into actual military power is paramount to a welfare state, "pork barrel" projects, and to "business as usual." Almost over night, we have accepted inflation, heavier taxes, and probably a much larger debt burden as inevitable. What seemed sacrosanct yesterday—such as low interest rate policy – may have to go tomorrow.

Western Europeans, used to living next to the communist world, while welcoming President Truman's prompt decision to act, remained at first unruffled by the communist challenge in Korea. To them it was just another "colonial" war, such as the French are fighting in Indo-China, and the British in Malaya. Let the Americans handle it. As a matter of fact, some of the European governments, especially the socialist ones, were jarred more by the idea that the war emergency might interfere with their experiments than by the danger to their freedom involved in the Korean invasion.

The people in the street, too, refused at first to take the Korean war in earnest. They were just beginning to enjoy the fruits of the remarkable improvement made during the past years, largely thanks to Marshall Aid. Korea, in their opinion, was purely an American problem. Besides, the increased American spending overseas in connection with the defense promised to ward off an economic collapse in 1952 when Marshall Aid was to end: the spectre of this collapse has been responsible for much of Western European defeatism.

Final Awakening

But the gravity of the situation was realized when the progress of the war in Korea revealed that the semi-obsolete American equipment—with which the Western European armies were to be equipped—was not even good enough to stop satellite armies. The threat of Russian military might to Western Europe's freedom has now become obvious as has also the necessity of lending a hand to the United States by making Western Europe's resources count to the

utmost in meeting threats of aggression.

The primary object of the Marshall Plan, as will be remembered, was to combat the spread of communism by providing the Western Europeans with food and tools during a period while they restored their farms, repaired their factories, and started new industries. In the economist's language, we were to underwrite Western Europe's dollar gap in her payments with us, in order to enable her to raise herself to a decent standard of living. The secondary object was to organize Western Europe into a strong economic unit which would show a united front in case of aggression from the East.

Western Europe on the Eve of Korea

The first object of the Marshall Plan has been practically accomplished except in such countries as Western Germany, Austria, and Greece. Thumbing through the "Recovery Guides," an excellent publication of the E.C.A., one cannot but be impressed by the truly amazing recovery of the old Continent. Excluding Western Germany, Western European production has reached a level at least 40 per cent above prewar. Overall steel production is approaching the 50 million-ton figure, and the consumption of electricity has more than doubled since 1938. Agricultural production has practically recovered, and in the foreign trade field the volume of Western European sales has risen by about 30 per cent above the prewar level.

With the exception of a few commodities still being rationed in Great Britain, Norway, and Denmark, the Western European can buy all the clothing and food he needs. On the other hand, in all countries there have been long lists of potential buyers waiting for cars, refrigerators and new houses. One could say that Western Europe's recovery has reached about the same stage as that of the United States in the Fall of 1947. It would have been much harder at that time for us to switch our resources for defense, and much more inflationary than it is now that deferred needs have almost been satisfied. And that is why Western Europe is—somewhat belatedly—so disturbed at the potential threat of inflation arising from Korean repercussions.

Until Western Europe began to think about stepping up her own defense programs, the prospects for picking up extra dollars and for reducing the dollar gap looked really good. With the United States producers preoccupied with defense, it appeared that we should buy more in Europe and sell less in the markets where we competed with European goods. Increased demand for some of Western European products, such as textiles, machinery, steel, plastics, artificial fibers, synthetic rubber, and even automobiles was reported. Prospects were best for those countries where there was the biggest slack to take up in productive capacity, in Western Germany and Italy.

Probable Impacts on Trade

In view of new defense programs, it is still too early to say to what extent Western European goods will replace our products in Latin America. However, Western Europe will definitely benefit from the expanding purchasing power of the raw material producing areas, such as Canada, the overseas sterling area, French West Africa, and the Belgian Congo, all of which are bound to profit not only by bigger sales to the United States, but also from the rising prices of their products.

At the time of the Korean invasion, Western Europe's dollar gap was running at the rate of about $2 billion a year. A year ago, just before the September devaluations, the dollar deficit was running at the rate of about $3.5 billion a year. Hence, there has already been a remarkable improvement. Our increased spending abroad for foreign goods and services is estimated to add about $1½ billion to our overall spending. Consequently, even if Western Europe were able to pick up all the extra dollars, some gap would be left, notably for Greece, Austria, and Italy.

However, no matter what dollar gap there is left, the anticipated dollar shortage crisis in 1952 "just does not have any meaning any more," as a highly placed Washington official recently remarked. The reason for this is that the United States will supply Western Europe with some dollars under the North Atlantic Pact Program. Early this month the President requested Congress to appropriate to this end $4 billion over and above the $1.2 billion already authorized.

Thus during the current fiscal year our contribution to Western Europe's economic recovery (Marshall Plan) and to her defense program may come to about $7 billion. The bulk of this aid would, of course be made available in the form of military equipment and U.S. produced food and raw materials. But as the British are proposing, considerable cash would also change hands to finance purchases elsewhere.

(*Please turn to page* 591)

Pre-Korea and Post-Korea Defense Expenditures Estimates for 1949 or 1949-50

(All figures in millions of national currency)

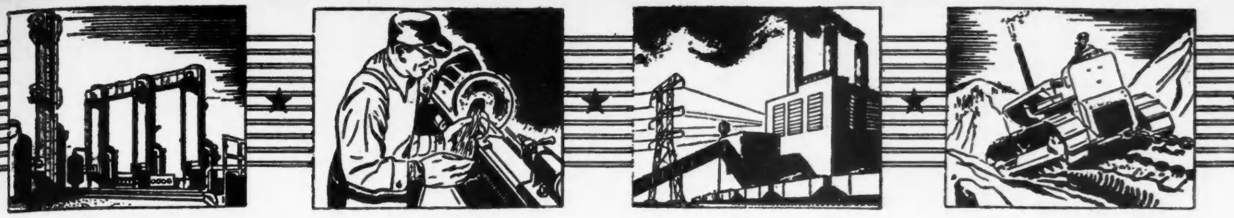
		National Income	Pre-Korea Defense Expend.	% of National Income	Post-Korea Defense Expend.	% of National Income
United States	US$	222,000	14,000	6.3	30,000	13.5
Canada	C$	13,000	385	3.0	......	......
Great Britain	£	10,000	785	7.8	1,100	11.0
France	Ffr.	7,000,000	420,000	6.0	600(b)	8.6
Italy	Lit.	6,500,000	250,000	3.8	......	......
Western Germany	DM	67,000	4,500(a)	6.7	......	......
Sweden	SK	24,000	855	3.6	......	......
Denmark	DK	16.500	316	1.9	400	2.4
Norway	NK	10.500	266	2.5	500(c)	4.8
Belgium	Bfr.	250,000	6,280	2.5	8,500	3.4
Netherlands	Fl.	14,000	850	6.1	......	......
Switzerland	S.fr.	18,000	485	2.7	......	......
Turkey	Lira	7.900	460	5.8	......	......

(a) Chiefly occupation costs.

(b) Assumed that about one-tenth of the 2 trillion francs (the cost of the rearing 15 divisions) would be borne by the French Government during the present fiscal year.

(c) Anticipated.

Based on a tabulation published in the latest annual report of the Bank for International Settlements.



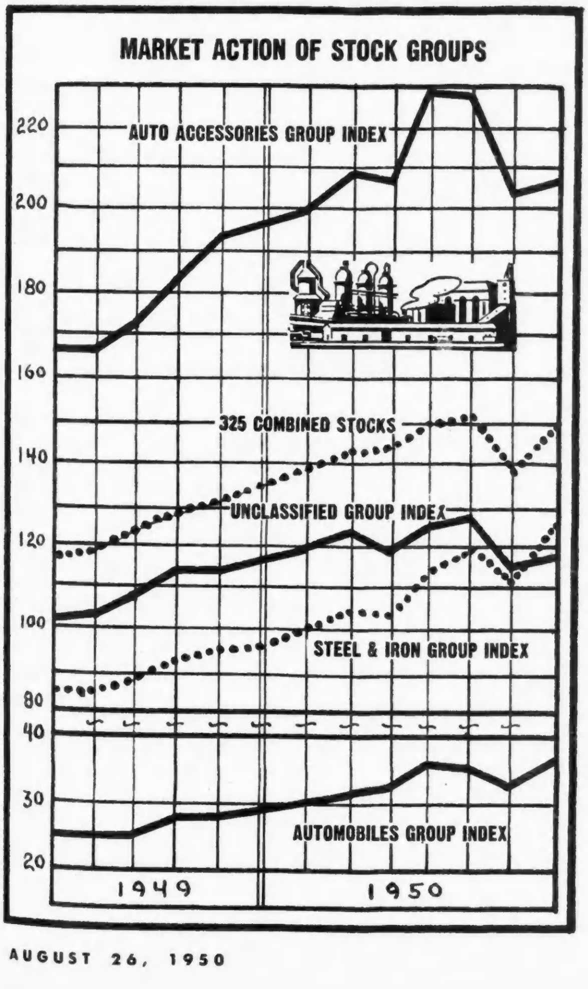
1950 Mid-Year Re-appraisals of Values, Earnings and Dividend Forecasts In a Mobilized Economy

★ ★ ★

Prospects and Ratings for Steels, Automobile Shares, Motor Accessories, Specialties and Unclassified Stocks

Part III

The outbreak of the Korean war, its immediate and longer term repercussions and the ever-present threat of a widening of the conflict—and the need to prepare for it, will have far-reaching impacts on our economy, injecting new uncertainties which already have led to important changes in investment thinking. The foremost question, which may not be answered immediately, centers on the extent to which events will force us into a progressive war economy, with all that it would mean in terms of restrictions and controls, higher corporate taxes and revival of the excess profits tax, as well as many other changes that might flow from a move towards at least partial economic mobilization.

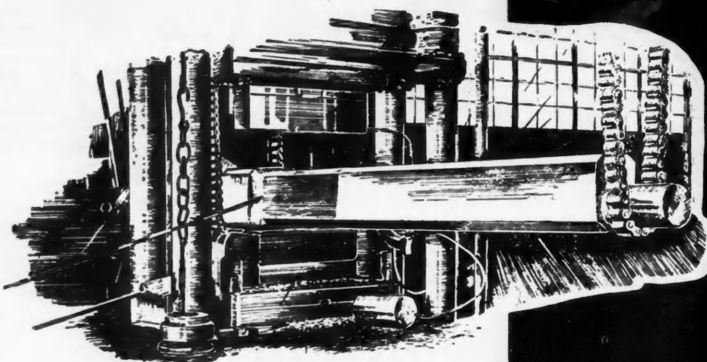


The cost of even a "little war" and resultant demands on the economy will be substantial. Since these will be superimposed on an already booming industry, inflation pressures may grow and production shifts in various areas may be required.

To assist our readers in arriving at sound investment decisions in the circumstances likely to prevail, and in realigning their policies with the selectivity dictated by varying industry prospects under changing conditions, The Magazine of Wall Street in addition to its regular coverage of important developments at this time presents its Mid-Year Security Re-Appraisals and Dividend Forecasts with particular emphasis on the strategic position of individual industries in a mobilized economy, outlining potential impacts of war and preparedness planning, vulnerability to excess profits taxes, as well as basic factors in operation.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a "W" in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter "X." *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*



Can STEEL Companies fill MILITARY-CIVILIAN Needs? . . . .

By J. C. CLIFFORD

Out of the current welter of uncertainties over the outlook for various industries under limited mobilization, the pattern unfolding for steel group has unusually clear cut elements. Despite record output in the first half year, it seems certain that recent peaks will be maintained and that the industry may achieve the remarkable feat of supplying all military needs without seriously curtailing deliveries for civilian manufacture. In the circumstances, high level earnings may prevail for leading steel producers for an indeterminate period, even allowing for increased tax burdens.

It is only recently that theoretical steel capacity for the first time in history has passed the 100 million-ton mark, about 11 million tons higher than the peak in World War II, and by a substantial margin larger than the combined output of all other countries. Of the present total, 1.1 million tons were added in the first six months of 1950 and the tally will rise as additional facilities are completed in the remainder of the current year. Looking ahead, the industry will undertake the largest expansion program since 1942, by a planned increase in capacity of about 6 million tons, a portion of which will be realized step by step in 1951 and with full completion envisaged by the end of 1952. Within little more than two years, accordingly, total capacity for steel should rise to some 106 million tons, without allowing for any but current blueprints.

The display of such optimism by the industry stems not alone from determination to keep abreast of whatever military requirements may evolve, but more importantly from confidence that civilian demand for steel has been far from satisfied and that rising national income will continue to stimulate purchases of durable goods for both industrial and private consumption. While the impact of heavier personal taxes and credit curbs may lessen the zeal for consumer durables, and available supplies may be curtailed by allocation of raw materials, the leading steel managements evidently feel little anxiety over the weight of these factors in formulating their plans for the longer term. Admittedly, their composite judgment rests on a secure foundation of experience and a keen insight into the economic outlook.

Huge Current Output

For the week beginning August 7, the American Iron and Steel Institute estimated that the operating rate of the industry would be 99.9% of capacity, calculated on basis of annual capacity totalling 100,563,500 tons as of July 1. In terms of steel ingots and castings, this would indicate an output of 1,919,600 tons, highest for the preceding four weeks and at a monthly rate fairly commensurate with enlarged capacity. It should be realized, though, that in many past periods, the operating rate has considerably exceeded theoretical capacity, and if needed could do so again. More than one concern currently is operating on an overtime basis, and if serious shortages occur, this could become more general.

In appraising the steel industry outlook for the remainder of 1950, allowance should be made for the fact that the automobile industry accounts for about 20% of total domestic steel consumption. It now seems pretty clear that under normal circumstances the makers of cars and trucks would absorb this proportion of steel through most of the current year, and now that fears of shortage and credit restrictions

are re-stimulating demand, the pressure to accumulate steel has intensified, especially sheet steel.

The second most important demand for steel originates from the building industry that now consumes about 17% of over-all production. In this division, the call centers more on pipes, structural shapes, bolts, nails, screws and general building hardware, the demand for which in military programs is rather limited. The trend towards "packaged homes," however, involves the use of much sheet steel for refrigerators, as well as stainless steel and alloys for sinks and numerous other appliances. Considering the coming curbs on home building credit, demand for steel from the building industry may shrink, quite apart from the possible impact of priorities and allocations.

Apprehension that the steel industry may not be able to live up to its responsibilities under limited mobilization has been greatly exaggerated, and until well into the final quarter at least, deliveries of steel should continue their present momentum to regular customers, although by then the character rather the tonnage of various products shipped may begin to change. In this respect, producers of steel plates and special alloys may have to prepare for an increasing allotment of their output for defense purposes.

How Much of a Squeeze?

Considering that steel supplies have been tight for a long time, although military requirements absorbed hardly more than 2% of production, it is evident that the stepped-up defense program will create some squeeze. On the other hand, while $10 billion, or even $20 billion additional may be spent for defense, only a very small portion can be expended in the current year, and far less than generally realized may go for steel products. Appropriations for trucks and tanks may be liberal, but might only offset a lessened demand for passenger cars. $3 billion, and probably more, will go for aircraft and parts that require very little steel, while military housekeeping, chemicals and non-durables will account for a preponderant amount.

Indirectly, though, the defense program has greatly increased the demand for steel in the manufacture of freight cars, with a prospect that castings for wheels, heavy plates or sheets for doors and sidings, plus strong frames, involving as many as 120,000 new cars, will require a very large tonnage.

The main worry of the steel industry at present is that Government may consider it necessary to enter the picture with mandatory priorities and allocations, rather than permit needed adjustments on a voluntary basis. Given a free reign, managements are confident that with reasonable promptitude, all demands can be met after giving priority to military requirements, and that the various steel concerns will be able to operate with utmost efficiency.

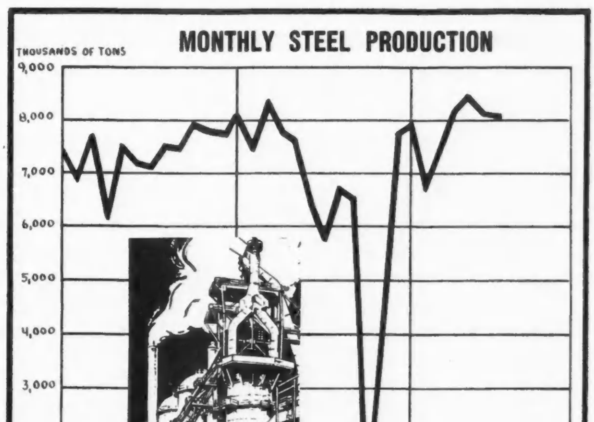
In the first half of 1950, the progressive advance in production and sales following termination of the steel strike was broadly reflected by a sharp uptrend in the earnings of most companies. Compared with the first six months a year earlier, the average profit rise was close to 25%, and in the second quarter even higher. More than half a dozen of the leading firms in the June quarter lifted their net earnings by as much as 33%, compared with the year before. Aside from larger volume, a 4% rise in steel prices instituted in December, together with the fruits of large scale modernization in postwar, aided in creating operating advantages. Reference to our statistical table will reveal how net profit margins of numerous concerns widened as against 1949.

The showing in the first six months was particularly impressive because since last March, steel-making costs have risen significantly. During all of the second quarter, most companies had to shoulder increased wages and the new pension charges, while the price of scrap surged upward at a discouraging pace and cost of non-ferrous metals also climbed. While compensating advances in prices for some steels tended to offset higher operating costs, improved operating efficiency was mainly responsible for the excellent earnings record achieved. This was especially true for some of the better integrated companies that had a large supply of scrap on hand prior to the sharp rise in cost of this essential material.

Near Term Earnings Potentials

In appraising earnings potentials for the third and fourth quarters, it seems probable that margins generally may contract, since operating costs may continue to rise without much of an offset from higher product prices. At this writing, steel scrap is reported selling around $42 per ton or almost twice the level only three months ago. Whether increased imports of scrap from Europe will ease the supply situation is conjectural. During the first half year, some 500,000 tons of scrap were brought in from overseas, but transportation costs were heavy and the available number of tramp steamers needed seems to be shrinking under military demand for their usage. Tight pricing by Government authorities may also tend to narrow margins as Defense orders rise.

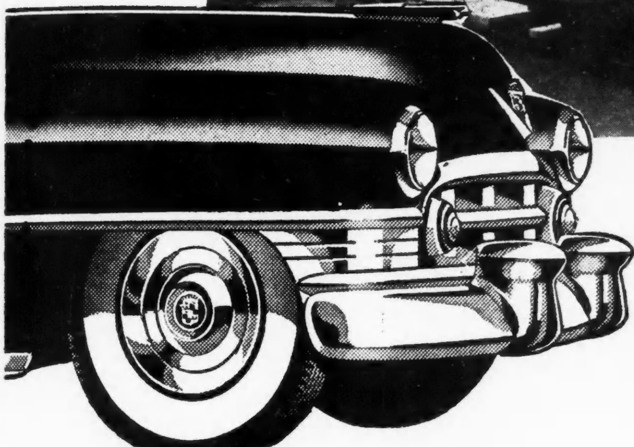
As for ore supplies, it is improbable that any important shortages will handicap operations over the medium term, since the fleet of ore carriers has been much enlarged in postwar and is still growing. Only recently, United States Steel ordered two giant new ore vessels to cost more than $4 million apiece. Then Bethlehem Steel is (*Please turn to page* 591)



Position of Leading Steel and Iron Companies

	1949 Net Sales ($ mil.)	1949 Net Margin	1949 Net Per Share	First Half 1950 Net Sales ($ mil.)	First Half 1950 Net Margin	First Half 1950 Net Per Share	Recent Price	Div. 1949	Div. Yield†	Investment Rating	COMMENTS
Acme Steel	$ 50.2	7.5%	$1.91	$ 32.5	10.1%	$1.66	23⅛	$1.75	7.5%	B2	Outlook enhanced by prospectively sustained demand for steel strips, stapling wire and containers. Recently advanced 50 cents quarterly dividend secure.
Allegheny Ludlum Steel	105.7	1.8	1.15	78.2	5.8	3.36	33	2.00	6.0	B1	Company should benefit from Defense Program and is aggressively expanding. The 50 cents quarterly dividend is well protected.
Armco Steel X	341.3	9.0	7.68	204.7	12.5	6.46	39¾	2.50	6.2	B2	As one of the lowest cost producers of stainless steel, Armco has bright prospects. Earnings in sharp uptrend. The increased 75 cents quarterly dividend is conservative.
Bethlehem Steel X	1,266.8	7.8	9.68	670.8	8.5	5.63	41⅛	2.40	5.8	B2	Complete integration, substantial plant improvements and broad output favor continued high level earnings. The indicated $3 dividends annually could be liberalized.
Byers, A. M.	29.2(a)	5.8	5.16(a)	....	......	(d)1.85(e)	19	1.50	7.8	C+2	Receding demand for wrought iron pipe adversely affecting sales and earnings. Some question if dividends in fiscal 1951 will equal 1950.
Carpenter Steel	26.5(b)	7.6	5.58(b)	17.7(g)	8.2	4.04(g)	43	2.50	6.0	B1	Successful record as producer of alloy steel promotes confidence in well maintained near term progress. 1950 dividends, including extras, should at least equal $3 per share.
Colorado Fuel & Iron	138.3(b)	7.3	8.46(b)	112.6(c)	3.8	3.30(c)	18	2.00	11.1	C+1	Earnings in fiscal 1950 sharply reduced, but marked expansion in current activities should restore liberal 37½ cents quarterly dividends probable, with occasional extras.
Continental Steel	22.5	2.8	1.27	18.1	9.4	3.41	19¾	1.75	8.8	C+2	The prospect of lower demand for roofing and nails is rather clear, but a sharp uptrend in current earnings advanced the quarterly dividend to 35 cents and an extra may follow.
Crucible Steel	99.3	1.3	(d).41	....	......	2.63	27	......	......	C+1	A leading maker of high speed tool steels and stainless steel. 1950 earnings in a strong upspurt. Near term clearing of arrears and resumption of common dividends possible.
Follansbee Steel	25.3	(d)	(d).20	13.7	2.7	.84	16½	1.00	6.0	C1	Substantial recovery in earnings from last year's deficit indicated. 25 cents quarterly dividends amply protected presently and should be continued.
Inland Steel	345.8	7.2	5.11	209.2	10.2	4.38	47⅜	3.00	6.3	B2	One of the most efficient steel concerns. Prospective earnings of around $7 per share in 1950 should easily permit total dividends of $3 per share.
Interlake Iron	57.1	10.7	3.15	31.5	9.2	1.50	15¼	1.50	9.8	C+2	The dominant producer of merchant iron, enjoying unusually stable earning power. Heavy demand and firm prices enhance outlook. 1950 total dividends should equal $3.
Jones & Laughlin Steel	386.0	5.4	7.50	219.6	7.4	5.99	36¾	2.60(f)	7.1	B2	Fourth largest steel producers. 1950 earnings sharply up and may reach $8.50 per share this year. 65 cents quarterly dividends could be liberalized.
Keystone Steel & Wire	59.1(b)	7.7	2.46(b)	....	......	4.53(c)	25	1.00	4.0	B2	Plant improvements and other operating advantages assure satisfactory earnings. Heavy demand for wire should continue. 40 cents quarterly dividends safe.
National Steel X	424.8	9.2	5.34	....	......	3.95	45	1.83	4.1	B2	Operations benefitting from complete integration and largely expanded facilities. No change in the 60 cents quarterly dividends expected.
Republic Steel X	651.9	7.0	7.54	418.9	9.0	6.25	37½	3.00	8.0	B2	Record volume and higher prices swelling earnings. A liberal year-end extra may supplement 25 cents quarterly dividends plus specials.
Sharon Steel X	89.5	3.7	5.39	58.1	7.1	7.44	35⅞	2.00	5.6	C+1	Well rounded output of billets and bars, strips and seamless tubing should continue in heavy demand. The recently increased 75 cents quarterly dividend is secure.
Sloss-Sheffield Steel & Iron	25.1	10.5	5.34	....	......	3.49	25⅞	2.00	7.7	C+2	Prominent producer of pig iron. Earnings potentials favorable under current conditions. 50 cents quarterly dividends seem dependable.
Superior Steel	13.3	(d)	d)2.40	10.5	3.7	1.40	14½	1.00	6.9	C+1	Specializes in stainless, alloy and carbon strip steel. Operates with rather narrow margins, but recently resumed 25 cents quarterly dividends fairly safe.
U. S. Pipe & Foundry	40.3	11.1	6.48	17.5	9.3	2.35	36⅞	4.00	10.9	B3	Well integrated producer of welded pipe. Strong trade position. Current earnings slightly lowered by reduced demand but $3 dividends declared for full 1950.
U. S. Steel X	2,293.2	7.2	5.39	1,387.6	8.5	4.08	36	2.25	6.2	B2	Company in best shape in history to forge ahead. Outlook for well sustained high earnings is good. The increased 65 cents quarterly dividend amply protected.
Wheeling Steel X	143.4	5.5	5.34	83.4	9.4	6.08	30¾	4.00	13.0	B2	The present heavy demand for light steels assures capacity operations throughout 1950. Fair chance that 50 cents quarterly dividends may be increased.
Woodward Iron	24.9	20.9	7.39	12.1	20.0	3.60	39	3.50	8.9	B2	Second largest pig iron producer, experiencing heavy demand. Satisfactory and stable earnings indicated. 1950 dividends should aggregate $4.
Youngstown Sheet & Tube X	334.8	9.4	18.97	180.2	10.1	10.91	93¾	6.00	6.4	B2	Currently earnings at a record rate comparable to the 1948 peak of $21.32 per share. An advance in the quarterly dividend rate to $1.50 may be followed by extras.

(†) Based on 1949 dividends.
(a) Year ended Sept. 30, 1949.
(b) Year ended June 30, 1949.
(c) Year ended June 30, 1950.
(d) Deficit.
(e) 9 months ended June 30, 1950.
(f) Plus stock.
(g) 9 months ended March 31, 1950.

AUTOMOBILE COMPANIES
Looking to Tomorrow

By GEORGE W. MATHIS

The automotive industry is the dynamo of our mechanized economic system both in peace and war, thus should fare well under either conditions; yet transition to a semi-war economy has injected considerable doubt and conjecture as to the outlook for the industry. Not that there is any question about demand for cars which once more has skyrocketed under revival of trade jitters reminiscent of the 1940-41 period. Conjecture revolves around possible production curtailment due to allocations of vital raw materials and the uncertainty to what extent any forced output curtailment might be compensated for by defense orders. And higher taxes also loom ahead.

For the moment, these questions are somewhat academic in the sense that auto production continues to boom unrestrictedly and that the impact of controls is not likely to be felt until some months hence. Similarly, Detroit so far has few if any defense orders (except for trucks) and is not likely to experience a rush of them in the near future.

Above all, large scale conversion of automotive facilities for arms orders—barring total war—is not foreseen. At this writing, and prospects of course may change in a general environment of flux, industry spokesmen anticipate no more than a 10% to 20% output curtailment once controls take hold, with the prospect that new car output is likely to total at least 5.5 million units in 1951. That would still be a boom number, above any year but this.

As to 1950, the industry has wound up the biggest seven months in its history in both production and sales and is currently headed for a new monthly record. Output from January 1 through the end of July was in the neighborhood of 4.8 million cars and trucks and in view of the intensified demand, the pace will be maintained as long as supply conditions permit. The Korean situation has given the industry a stimulant which it hardly needed. The outlook now is that full-year production should reach 6.5 million passenger cars alone, comparing with 5.1 million last year and the old historic mark of 4.58 million back in 1929.

Barring deeper cuts in materials allocations than currently anticipated, this goal should be reached despite credit restrictions, probably beginning September. It remains to be seen whether tighter consumer credit, in fact, will hold back demand to an extent equalling any prospective lowering of output because of supply restrictions.

While 1950 may be a year of record profits for leading car builders, this doesn't mean that second half earnings may be fully comparable with those of the first half except in cases—as with Chrysler—where first half production was beset with special handicaps. For one, higher corporate taxes loom ahead for the rest of the year. Secondly, production costs will be higher not only because unit volume may recede, under the impact of controls, during the latter part of the year, but because labor costs are also rising.

Higher Wage Bill Ahead

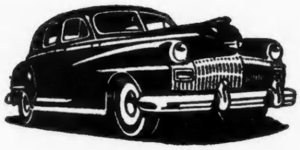
Pension and insurance programs are adding to the wage bill. General Motors' workers will get an automatic wage increase in September, under their five-year contract tied to the cost-of-living index, which may amount to four or five cents an hour. The Ford Motor Company is also facing a request to increase wages for its 117,000 employees—with the UAW thus becoming the first large union to seek a pay rise to offset the recent jump in living costs. And workers in Packard plants even now are striking to force new demands upon the management. (*Please turn to page* 593—*See table on page* 574)

Statistical Position of Automobile and Truck Manufacturers

	1949			First Half 1950							
	Net Sales ($ mil.)	Net Margin	Net Per Share	Net Sales ($ mil.)	Net Margin	Net Per Share	Recent Price	Div. 1949	Div. Yield	Invest-ment Rating	Comments
Chrysler X	2,084.6	6.3	15.19	675.3	5.8%	4.54	70½	$5.25	7.4%	B1	First half earnings one-quarter below last year due to strike, but second half may exceed 1949 unless steel shortage prevents. New $7.00 dividend rate should be maintained.
Diamond T	21.2	7.0	.35	12.5	.1	.04	15½	1.00	6.4	C+1	Made 4¢ in second quarter vs. 19¢ deficit in first. With potential government business in offing, company may eventually recover more substantial earning-power. Sound cash position permits continuance of $1 dividend.
Federal Motor Truck	11.7	......	(d)1.60	4.2	......	(d)1.19	5¾	......	......	C+1	Company lost $1.19 in first half vs. $.28 last year, but some improvement possible in second half. Cash has deteriorated steadily since 1943, and early dividend resumption unlikely.
Fruehauf Trailer	77.6	3.6	1.91	51.1	6.7	2.64	25	2.00	8.00	B1	Reported $2.64 in first half vs. $1.09 last year and earnings should continue to gain. With ample working capital, maintenance of $2 dividend seems assured.
General Motors X	5,700.8	11.5	14.64	3,606.3	13.4	10.91	94¾	8.00	8.4	B1	This industrial colossus is enjoying a banner year with forecasts of $18-20 share earnings and total dividends of $10 or more based on present stock. Shortages and higher taxes may affect 1951 results.
Hudson Motor Car	259.5	3.8	5.30	58.8(c)	3.8	1.18(c)	14¾	1.70(b)	11.5	C+2	With lower first-quarter results and a pending wage increase, earnings this year may drop below last year's $5.30. However, cash is extremely large and continuance of current $2 dividend rate (including $1 special) seems likely.
Kaiser-Frazer	104.4	......	(d)6.65	14.4(c)	......		7	......	......	C2	1950 interim earnings not published but operations probably continued in red. Production schedules recently increased 50% which may permit profit margins. In view of company's substantial debt, stock remains highly speculative.
Mack Trucks	78.3	......	(d)2.71	53.6	.1	.04	17	......	......	C+1	June quarter in black for first time since September 1948; further improvement likely under stimulus of defense activity. Account small cash position, resumption of dividends remains uncertain in 1950, but possible in 1951.
Nash-Kelvinator	364.1(a)	7.2	6.04(a)	320.7(e)	6.6	4.95(e)	19	2.15	11.3	C+1	Nine months' interim earnings (to June 30th) slightly above last year, June quarter showing substantial gain. With heavy cash and ample working capital, new $2 dividend rate seems well protected, with year-end extra possible.
Packard Motor	212.5	3.6	.52	79.1	......	(d).05	4⅜	.50	11.3	C+2	1950 first half operations slightly in the red due to cost of new models and ultramatic drive. Working capital continues ample, but chances for small year-end dividend seems dependent on recovery of earnings.
Reo Motors	23.2	......	(d)4.03	13.8	2.8	.80	16⅜	......	......	C1	First half earnings made good comeback ($.80 vs. loss of $1.23). Earnings record extremely erratic. Receipt of military orders and development of new engine are constructive, but financial position is poor.
Studebaker X	473.1	5.8	11.70	256.0	5.6	6.12	31⅛	2.50	8.0	C+1	First half results excellent ($6.12 vs. $4.98) and second half earnings should be well maintained, aided by military orders. Cash position strong, and new $3 dividend rate remains conservative.
Twin Coach	16.4	......	(d)2.19	2.7(c)	......	(d).37(c)	7	......	......	C+1	Company in red for some time, but operations should improve due to new line of coaches and expanding production of aircraft parts. Financial position weak and dividend outlook uncertain (one year's preferred in arrears).
White Motor	77.3	1.2	1.41	44.4	3.3	2.13	23¼	1.15	4.9	C+1	Earnings erratic, though seldom in red; substantial recovery in first half over last year's poor showing. With fair financial position, regular $1 dividend rate is well covered, and larger quarterly payment expected early in 1951.
Willys-Overland	142.3(a)	2.3	1.04(a)	72.4(e)	.3	(d).07(e)	8⅝	......	......	C1	Small deficit for nine months ended June 30 should be followed by at least moderate earnings recovery as both civilian, military orders mounting. No common dividends ever paid, however.

(a) Year ended Sept. 30, 1949.
(b) Plus 5% stock.
(c) First quarter 1950.
(d) Deficit.
(e) 9 months ended June 30, 1950.

Outlook for MOTOR Accessories —under Mobilization



By PHILLIP DOBBS

Manufacturers of auto parts generally extended earnings gains in the second quarter from a moderate rise in the first three months, and in some cases the improvement was quite marked. Sales by suppliers to the leading automobile companies closely followed the rising tide of new car output, while volume of replacement parts also recovered from a slight recession earlier this year. Accessories producers manufacturing non-automotive lines shared in the upswing in demand for home appliances and aircraft parts. Results of the industry, accordingly, were quite encouraging for the first six months, although individual company experience varied as usual.

Despite the impact of the Chrysler strike, some 4.8 million passenger cars and trucks were produced in the first seven months of the current year in the United States and Canada. In view of the impending adjustment of the economy to a partial mobilization basis, it is virtually certain that production cannot continue throughout 1950 at the record rate established in the first half year, although this may be possible through most of the third quarter. Allowing for a cut-back of, say, 25% in the final quarter, output of cars and trucks this year might still reach close to seven million, in which event volume of original equipment parts for the full year would establish record proportions. It should be realized that to put the arms program into full gear will require considerable time.

Replacement demand in the first half, as said, tended to rise as dealers became more confident as to their inventory accumulations, and as the number of old cars on the road still remained substantial. The increasing fleet of new cars in operation, many sold without full equipment under heavy competitive pressure, also provided an expanding market for radios, heaters and a lengthy list of similar conveniences which prosperous consumers were eager to acquire. And with the impact of the Korean war, the prospect of coming shortages stimulated dealers all over the country to build up their stocks of parts without delay, so that with small doubt the order backlog of equipment manufacturers is currently surging upward from this source. Hence until steel and other essential materials are allocated, it is likely that business will keep booming.

While non-automotive items are of less importance than primary lines to the parts manufacturers, increased sales of refrigerators, washing machines, oil burners, together with an assortment of aircraft specialties and industrial products, have swelled volume and earnings of some concerns notably this year. The same influences currently affecting demand for automotive essentials are now at play in these divisions, and in near term months should continue to create new business.

How Much Curtailment?

Investors apprehensive over an approaching reduction in motor car output, with consequent adverse effect on the operations of parts suppliers, should realize that during World War II, this group did fairly well regardless of much heavier restrictions and tax burdens than the immediate future suggests. Since then, the facilities of most concerns, as well as their financial resources, have been substantially enlarged, and several units such as Bendix Aviation and Thompson Products are already deriving profits from production of aircraft parts. Barring full scale warfare, most of the parts manufacturers could readily convert to military production on a limited scale, although some expense would be involved and profits on this class of business would be more restricted.

Statistical Data on Leading Automobile Parts and Accessories Companies

	1949 Net Sales ($ mil.)	1949 Net Margin	1949 Net Per Share	Interim Reports 1950 Net Sales ($ mil.)	Interim Reports 1950 Net Margin	Interim Reports 1950 Net Per Share	Recent Price	Div. 1949	Div. Yield	Investment Rating	Comments
American Bosch	$ 26.4	8.3%	$2.13	$ 16.0(l)	8.0%	$1.14(l)	13⅜	$1.00	7.5%	C+1	Company under efficient management making good progress in current year. No change in the 25 cents quarterly dividend probable.
Bendix Aviation X	182.6(a)	6.0	5.24(a)	106.1(k)	6.9	3.48(k)	49⅝	3.50	7.0	B1	Strongly entrenched as manufacturer of auto and aircraft parts. Military business should increase. A liberal year-end extra should supplement 50 cents quarterly dividends.
Bohn Alum. & Brass	29.2	......	(d)1.60	17.0(l)	2.6	1.29(l)	28⅝	.75	2.6	C+1	Emerging from poor period induced by inventory adjustments and operating handicaps. Recently resumed 25 cents quarterly dividends should hold.
Borg-Warner X	252.3	8.7	9.16	152.7(l)	10.3	6.62(l)	63	5.50	8.7	B1	Diversified output sustaining an uptrend in earnings. Well entrenched trade position and modernized facilities strengthen fundamentals. $1 quarterly dividends secure and extras should follow.
Bower Roller Bearing	22.5	11.2	2.82	......	......	1.82(l)	47⅛	3.00	6.3	B1	Excellent record likely to continue. Earnings on recently split shares (2 for 1) should exceed $3 this year. 50 cents quarterly dividends safe.
Briggs Mfg.	338.2	3.9	6.88	......	......	1.63(l)	30	3.00	10.0	C+1	Despite handicapped first quarter, 1950 net may approach the 1949 $6.88 per share. Dividends also should hold near last year's total of $3.
Briggs & Stratton	23.5	12.6	4.99	......	......	1.90(l)	27⅛	2.75	10.1	B—1	Leading maker of low h.p. motors, switches and locks. Long strike this spring cut earnings but good recovery under way. 25 cents quarterly dividends plus extras assured.
Camp. Wyant & Cannon	16.0	6.2	2.90	3.7(j)	5.8	.60(j)	21⅛	2.00	9.4	C+1	Foundry concern with rather large overhead and rising wage costs. Net earnings, though, should stabilize 50 cents quarterly dividends.
Clark Equipment X	53.7	4.9	4.86	30.3(l)	6.2	3.51(l)	28½	2.00	7.0	B—1	Recovery in demand for truck parts should be reflected by satisfactory earnings. Dividends should continue at at least the 50 cents quarterly rate.
Cleveland Graphite Br. X	29.5	9.0	3.82	19.2(l)	9.4	2.68(l)	26½	1.80	6.7	B—1	Recent acquisitions enhance potentials for stable operations. Net earnings for 1950 in uptrend and dividend policies will likely be liberalized in second half year.
Collins & Aikman	27.9(b)	.2	.09(b)	9.5(m)	6.0	1.01(m)	16½	.50	3.0	C+1	Improved demand for wool and mohair fabrics causing moderately higher sales and earnings. It is possible that dividends will be resumed later in the year.
Dana Corp.	106.1(c)	7.8	3.18(c)	82.0(n)	10.0	3.20(n)	18⅝	1.00(i)	5.3	B1	Margins widened in first six months by cost economies. 1950 earnings should continue higher. Advanced 50 cents quarterly dividend should hold.
Eaton Mfg. X	102.2	8.0	4.61	68.5(l)	9.9	3.79(l)	35⅝	3.00	8.4	B1	Company making good progress during vigorous uptrend in demand for auto parts. Total dividends in 1950 should exceed $3 per share paid in 1949.
Electric Auto-Lite	217.5	5.2	7.58	94.4(l)	5.4	3.47(l)	42	3.00	7.1	B1	Strong trade position a favorable factor. Fair prospect that earnings this year may reach $8 per share, despite poor start. Conservative annual $3 dividends secure.
Electric Storage Battery	89.1	2.0(e)	1.89(e)	38.2(l)	4.4	1.87(l)	40½	2.25	5.5	B1	Operations stabilized by dual demand for original equipment and replacements. Net earnings in current year should amply cover 50 cents quarterly dividends.
Hayes Mfg.	14.4(f)	7.7	1.05(f)	9.1(o)		(d).33(o)	6	.60	10.0	C2	Loss of important customers adverse to volume and earnings this year. Dividends omitted recently and resumption obscure.
Houdaille-Hershey	53.1	3.2	1.68	30.8(l)	4.7	1.59(l)	11¾	1.00	8.5	C+1	Business sensitive to changes in automotive demand, but under present conditions earnings are in uptrend. 25 cents quarterly dividends amply earned.
Kelsey-Hayes "B"	80.7(c)	6.0	7.88(c)	59.8(n)	4.3	4.24(n)	18⅜	1.50	8.1	C+1	Largest independent wheel manufacturer. In fiscal 1950, ending August 31, earnings will be below fiscal 1949, but coverage of 37½ cents quarterly dividends is broad.
Midland Steel Products	57.0	9.3	9.53	......	......	4.36(l)	38⅜	5.00	13.0	C+1	Sharp recovery from Chrysler strike handicap indicates 1950 net may reach $11 per share. The 75 cents quarterly dividend, recently advanced, should easily continue.

(a) Year ended Sept. 30, 1949.
(b) Year ended Feb. 25, 1950.
(c) Year ended Aug. 31, 1949.
(d) Deficit.
(e) Not including reserve adjustments.
(f) Year ended Sept. 30, 1949.
(g) Year ended June 30, 1949.
(h) Year ended July 31, 1949.
(i) Plus stock.
(j) First quarter 1950.
(k) 6 months ended Mar. 31, 1950.
(l) First half 1950.
(m) Quarter ended May 27, 1950.
(n) 9 months ended May 31, 1950.
(o) 9 months ended June 30, 1950.
(p) 9 months ended Mar. 31, 1950.
(q) 9 months April 30, 1950.

The main problem to consider, however, and one that cannot be answered as yet, is whether and to what extent prospective military orders may fill the gap when automotive business recedes. Margins on direct or indirect Government orders will assuredly be narrower than on current normal output in most cases, not alone because of higher taxes but due to rigidly imposed prices as well. Pending establishment of higher tax rates and determination of their effective date in the current year, it is impractical to appraise final earnings for 1950, but granted that the suggested 45% tax rate will apply only to fourth quarter operations, there is ground for hope that the group as a whole would earn as much or even slightly more than in 1949. In 1951, though, excess profit taxes seem sure to change the picture considerably: as a result of this prospect, dividend policies from now on will probably be conservative.

Operations of so many automotive parts manufacturers in the current year have been affected by special influences, and their potentials under the approaching revision of industrial operations varies so much, that it seems pertinent to discuss a few important situations in more detail. On the appended tabulation we present statistical evidence of net earnings, dividend and share price trends during the first half year for a number of leading part manufacturers, with supplementary brief comments as to their dividend prospects. In order to clarify the outlook in the second half year for some of these firms somewhat better, we have picked a few for further discussion.

Thompson Products, Inc. is well situated to progress relatively well under limited mobilization, due to long and successful experience in the production of both automotive parts (*Please turn to page* 592)

Statistical Data on Leading Automobile Parts and Accessories Companies (Continued)

	1949			Interim Reports 1950							
	Net Sales ($ mil.)	Net Margin	Net Per Share	Net Sales ($ mil.)	Net Margin	Net Per Share	Recent Price	Div. 1949	Div. Yield	Investment Rating	Comments
Motor Products X	59.0(g)	4.6	6.97(g)	45.0(p)	6.4	7.50(p)	34⅜	2.00	5.9	C+1	Reflecting large sales of auto parts and Deepfreeze products, 1950 earnings show marked improvement. 50 cents quarterly dividends may hold on increased stock.
Mo or Wheel	52.1	6.6	4.09	27.6(l)	8.4	2.73(l)	23⅜	2.60	11.1	C+2	Improved margins sustaining earnings close to 1949 level. Outlook good for steady 40 cents quarterly dividends and a year-end extra.
Murray Corp. of Amer.	97.8(c)	6.9	6.95(c)			6.05(n)	18⅛	1.60	8.8	C+1	Earnings for fiscal 1950, ending August 31, may establish a record high around $9 per share. Further outlook good. Quarterly dividends of at least 40 cents expected.
Raybestos-Manhattan	48.7	4.2	3.26	12.8(j)	4.9	.99(j)	31	2.12	7.0	C+1	Sharing extensively in current automotive boom. The increased 50 cents quarterly dividend should continue, with a likely prospect for a year-end extra.
Reynolds Spring	11.4(a)	3.4	1.32(a)	6.0(k)	3.7	.77(k)	10⅝			C+1	Heavy competition restricts margins, but large sales an offsetting factor. Prospective earnings of about $2.50 per share in fiscal year ending September 30, 1950 may lead to dividend resumption.
Smith, A. O.	152.4(h)	4.6	7.03(h)	122.8(q)	3.3	4.14(q)	30¾	1.60	5.2	B2	In year ended July 31, net earnings were probably be around $6 per share, slightly off, and higher tax rates may bring further decline next year. 25 cents quarterly dividend safe.
Standard Steel Spring	53.3	11.8	4.22	47.5(l)	10.1	2.70(l)	21	1.75	8.3	C+1	Broadened diversification and efficient management benefit operations. Earnings this year sharply improved. Total dividends in 1950 should at least equal $2 per share.
Stewart-Warner	54.6	3.9	1.67	33.6(l)	5.6	1.45(l)	14⅝	1.00	6.8	C+1	Television business this year benefitting earnings. Company should fare relatively well under limited mobilization. 25 cents quarterly dividends are secure.
Thermoid	21.3	4.2	1.01	5.4(j)	5.9	.32(j)	6⅞	.15	2.2	C+2	Fabricator of asbestos and rubber, with record of moderate earnings and considerable volatility. Small dividends may be continued.
Thompson Products X	107.6	5.5	10.73	53.7(l) 5 9	7.6	7.42(l)	65¼	3.00	4.6	B1	Large volume in original and replacement items, plus expanding sales of aircraft equipment creating higher earnings. 75 cents dividends quarterly are amply assured, and may be liberalized.
Timken Detroit Axle	89.6(g)	5.6	2.33(g)	—	—	3.39(l)	16⅜	1.50	9.2	B—1	Earnings in fiscal 1950, ended June 30, estimated around $1.75 per share, but may improve later. 25 cents quarterly dividends safe.
Timken Roller Bearing	99.4	3.5	1.46	30.3(j)	10.1	1.26(j)	41⅝	2.75	6.6	B1	Widespread demand for company's specialties in both peace and war enhance outlook. Recently advanced 75 cents quarterly dividend reflects good current progress.
Young Spring & Wire	50.7(h)	7.2	9.05(h)	35.5(q)	7.8	6.82(q)	28¼	3.00	10.6	B1	Despite heavy competition, earnings for fiscal 1950, ended June 30, probably set a record high around $10 per share. Extras should supplement 25 cents quarterly dividends.

(a) Year ended Sept. 30, 1949.
(b) Year ended Feb. 25, 1950.
(c) Year ended Aug. 31, 1949.
(d) Deficit.
(e) Not including reserve adjustments.
(f) Year ended Sept. 30, 1949.
(g) Year ended June 30, 1949.
(h) Year ended July 31, 1949.
(i) Plus stock.
(j) First quarter 1950.
(k) 6 months ended Mar. 31, 1950.
(l) First half 1950.
(m) Quarter ended May 27, 1950.
(n) 9 months ended May 31, 1950.
(o) 9 months ended June 30, 1950.
(p) 9 months ended Mar. 31, 1950.
(q) 9 months April 30, 1950.

Financial Survey of Specialty and Unclassified Stocks

	1949			First Half 1950							
	Net Sales ($ mil.)	Net Margin	Net Per Share	Net Sales ($ mil.)	Net Margin	Net Per Share	Recent Price	Div. 1949	Div. Yield	Invest-ment Rating	COMMENTS
Amer. Bank Note	$ 18.7	10.5%	$2.64	$......	......	$ .53	16¼	$2.00	12.3%	B3	Completion of large foreign orders has reduced volume and earnings in first half year. Small coverage of dividends at 25 cents quarterly rate.
Amer. Chain & Cable	57.0	8.7	4.57	30.1	8.0%	2.33	25	2.00	8.0	C+2	Dominant producer in field. 1950 earnings should prove satisfactory, but higher wage costs an adverse factor. The 40 cents quarterly dividend is secure.
Amer Chicle W	34.4	12.5	3.31	......	......	1.98	41½	2.50	6.0	A1	Earnings trending upward since early in the year. Outlook favorable for balance of 1950. Occasional extras may supplement 50 cents quarterly dividends.
American Ice	16.4	3.2	1.03	7.4	......	(d).40	7½	.60	8.0	C2	Seasonal factors may offset deficit incurred in first quarter, but poor chance that 1950 dividends will exceed 60 cents plus 10 cents extra paid last January.
American News	180.5	1.8	3.51	88.6	8.4	.88	33½	2.50	7.4	B3	Margins this year narrowed by rising costs, hence earnings in moderate downtrend. Bi-monthly dividends of 25 cents seem safe but extras may be infrequent.
American Safety Razor	15.3	1.3	.14	......	......	.18	7	.50	7.1	C+1	Extraordinary promotional expenses restricting earnings, but improvement likely in coming months. Payment of January dividend deferred but may be restored later.
Amer. Ship Bldg.	9.9(a)	5.0	4.47(a)	......	......	......	46⅛	3.00	6.5	C+2	Reduced activities in current year may be reflected in somewhat lower earnings, hinging on receipt of further orders. Strong finances assure dividend stability.
Archer-Daniels-Midl'd	277.0(a)	4.3	7.37(a)	......	......	4.10(k)	35⅞	2.00	5.5	B2	Lower average selling prices narrow profit margins, but improvement probable in second half year. The 50 cents quarterly dividend is safe and a year-end extra may come.
Avco Mfg.	137.3(j)	3.0	.54(j)	98.2(r)	4.8	.67(r)	7½	.30	4.0	C1	Company benefitting from broad diversification, including television, and extending acquisitions. Dividends are irregular but tend to improve.
Bush Terminal Co.	3.7	10.8	.78	1.8	8.1	.26	8⅞	(g)	......	C3	Gross revenues holding fairly steady but earnings slightly reduced by heavier expenses. Payment of small annual dividend possible.
Canada Dry	51.4(b)	4.2	1.04(b)	38.6(l)	4.6	.87(l)	10	.60	6.0	B2	Larger operating costs tend to restrict profits despite moderate volume gains, but price advances may bring improvement. No change in the 15 cents quarterly dividends indicated.
Catalin Corp. of Amer.	7.1	2.8	.35	4.3	3.0	.24	5⅞	.15	2.5	C2	Completion of new resin plant should aid volume gains, and earnings continue fair, but only small dividends can be expected.
C. I. T. Financial	823.3(c)	......	6.81	......	......	4.51	46½	3.00	6.4	B1	Steady rise in holdings of receivables assure substantial uptrend in earnings for the remainder of 1950. Dividends of at least $1 quarterly should continue.
Colt's Mfg.	7.8	6.6	2.65	......	......	3.96(m)	58	2.00	3.4	C1	Substantially higher net income and much reduced number of common shares outstanding sharply increasing per share earnings. Dividend policies should liberalize.
Commercial Credit	518.3	......	9.16	......	......	4.60	50⅜	4.00	7.9	B1	Earnings establishing new records in the current instalment credit boom, and should continue to expand. Quarterly dividends of $1.20 are secure.
Diamond Match W	76.3	4.2	2.35	......	......	1.17	41	2.00	4.7	A2	Operations continue on an above-average stable basis, and 1950 earnings should match last year. The 37½ cents quarterly dividend should not vary.
Dresser Industries	80.6(e)	4.3	2.85(e)	31.4(o)	1.7	.39(o)	18¾	1.85	9.9	C+1	Specialist in oil field equipment. Increased backlog orders suggest improved earnings in near term. 35 cents quarterly dividends appear secure.
Eversharp	15.5(i)	12.0	1.90(i)	3.9(p)	8.4	.33(p)	10⅜	......	......	C+2	Revenues from razor division satisfactory but pencil profits limited. 25 cents quarterly dividends may continue but not too certain.

(a) Year ended June 30, 1949.
(b) Year ended Sept. 30, 1949.
(c) Receivable outstanding at end of year.
(d) Deficit.
(e) Year ended Oct. 31, 1949.
(f) Year ended July 31, 1949.
(g) Paid 5% stock.
(h) Plus stock.
(i) Year ended Feb. 28, 1950.
(j) Year ended Nov. 30, 1949.
(k) 9 months ended Mar. 31, 1950.
(l) 9 months ended June 30, 1950.
(m) 16 weeks ended April 23, 1950.
(n) First quarter 1950.
(o) 6 months ended April 30, 1950.
(p) Quarter ended May 31, 1950.
(q) 9 months ended April 30, 1950.
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Financial Survey of Specialty and Unclassified Stocks (Continued)

	1949			First Half 1950							
	Net Sales ($ mil.)	Net Margin	Net Per Share	Net Sales ($ mil.)	Net Margin	Net Per Share	Recent Price	Div. 1949	Div. Yield	Investment Rating	COMMENTS
Froedtert Gr. & Malt	33.1(f)	9.9	3.44(f)	20.5(q)	6.5	1.37(q)	14¾	.82(h)	5.5	B—2	A leading malster with earnings affected by volatile barley prices. Large tonnage sales in 1950 should create satisfactory earnings and the 25 cents quarterly dividend is entirely safe.
Gar Wood Indust.	22.5(e)	......	(d).53(e)	7.5(o)	......	(d)1.39(o)	5⅜	......	......	C1	A long strike caused a large operating deficit in the first half of fiscal 1950. Subsequent improvement indicated, but dividend resumption obscure.
Gillette Safety Raz. X	90.7	15.3	6.26	......	......	3.33	37⅞	3.25	8.5	B1	Earnings from razor and Toni divisions advanced in first six months and may continue the uptrend. The increased 75 cents quarterly dividend rate should easily hold.
Greyhound	184.1	6.3	1.22	82.1	4.7	.40	10⅜	1.00	9.7	B3	A decline in passenger volume, combined with heavier expenses, may lower 1950 earnings somewhat, and coverage of 25 cents quarterly dividends will be narrow.
Life Savers	15.0	13.4	2.95	7.5	15.5	1.67	31½	2.20	7.0	A1	Enlarged facilities promoting volume gains, and earnings tend to rise moderately. The 40 cents quarterly dividends are secure and a year-end extra is probable.
Minn. Mng. & Mfg.	114.9	13.4	7.07	32.2(n)	14.5	2.33(n)	98½	2.60	2.6	B1	Development of new products enables company to forge ahead rapidly. 1950 earnings in steady uptrend, assuring stability of 80 cents quarterly dividends.
N. Y. Shipbuilding	22.6	3.1	1.41	6.7(n)	......	......	20	1.50	7.5	C+1	Increased backlog orders point to improved earnings in 1950 and defense mobilization likely to increase activities in near term. Dividends should total at least $1.50.
Nopco Chemical	16.8	3.7	2.46	......	......	2.05	29½	1.60	5.4	B1	Specialist in metallic soaps, vitamins and various pharmaceuticals. Earnings in first six months rose sharply. Extras likely to supplement 40 cents quarterly dividends.
Ronson Art Metal	32.1	16.8	4.96	6.6(n)	13.4	.82(n)	17⅜	2.55	14.6	C+3	Heavy promotional expenses may reduce earnings in the current year, but this should not preclude payment of occasional extra dividends.
Savage Arms	20.5	10.7	3.29	......	......	1.68	18½	1.75	9.4	C1	Outlook for increased military business bright, and current satisfactory progress indicated by recently advanced 35 cents quarterly dividends.
Scovill Mfg. Co.	74.7	2.5	1.20	46.4	6.0	2.11	30	2.00	6.6	B1	Broad product diversification and enlarged facilities substantially lifting 1950 earnings. 50 cents quarterly dividends unquestionably secure.
Sheaffer (W A.) Pen	19.3(i)	13.9	3.34(i)	4.2(p)	......	......	16¾	1.60	9.5	B3	Volume and earnings in current fiscal year may decline slightly under severe competition, but extras should continue to supplement conservative 10 cents quarterly dividends.
Simmons Co.	110.4	5.0	4.50	59.8	6.2	3.09	28⅞	2.50	8.6	B1	Uptrend in sales is widening margins and 1950 earnings should substantially increase, unless materials shortages develop. 50 cents quarterly dividends are assured.
Sperry	115.5	4.6	2.62	77.5	5.5	2.10	31¾	2.00	6.3	B1	Higher volume in first quarter foreshadows further uptrend as military business expands. Quarterly dividends of 50 cents appear likely.
United Carr Fastener	23.2	9.5	3.61	15.5	9.7	2.47	27½	1.50	5.4	B1	Recent 2 for 1 stock split, followed by 40 cents quarterly dividend on new shares compared with 50 cents on old; reflects well improved earnings.
U. S. Lines	80.1	6.8	3.62	......	......	.86	17	2.00	11.7	C3	Reduced exports, higher fuel costs and increased foreign competition restricting 1950 earnings. The 50 cents quarterly dividends, though, will probably continue.
White (S. S.) Dent. Mfg.	18.9	4.2	2.69	9.7	2.9	.81	27⅞	1.60	5.7	A2	First half year sales were steady, but net earnings reduced by heavier costs and barely covered dividends. Strong finances should assure dividend continuity at 37½ cents quarterly rate.
Wrigley W	68.4	18.1	6.30	35.2	19.0	3.41	74½	5.00	6.5	A2	Company's earnings should prove relatively stable despite reduced dividends from foreign subsidiaries. A year-end extra should supplement 25 cents monthly dividends.

(a) Year ended June 30, 1949.
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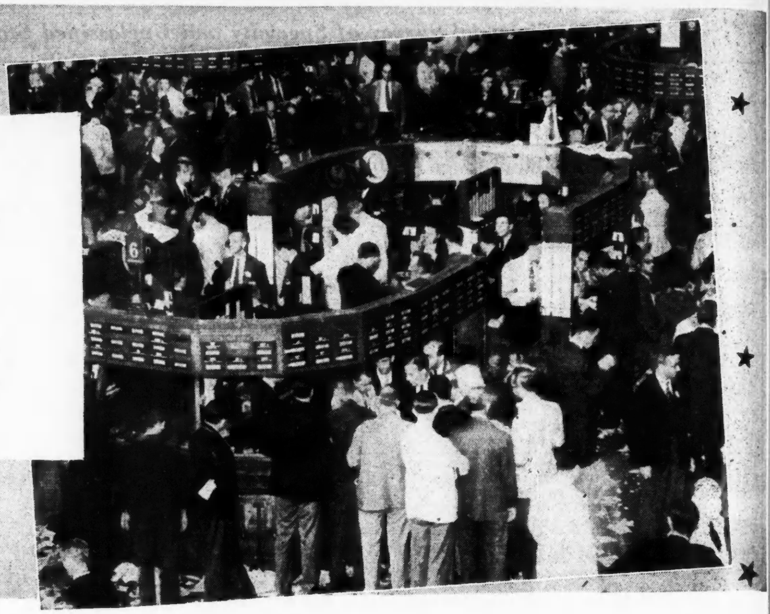
FOR PROFIT AND INCOME



September

The odds are probably something like 2-to-1 that in any given month the direction of the previous general trend of the market will be continued. That, of course, leaves considerable leeway for a deviation from trend, whether as a rally in a bear market or a reaction in a bull market. September is a case in point. Looking back over the chart for the last 30 years, the Dow industrial average had some rise in this month in 10 years, some decline in 11, and showed only a slight net change in 9. In short, there is no "seasonal tendency" in September. It is historical in some respects. Thus, it saw the start of the 1929-1932 bear market. It ended all doubt that the zig-zag trend from the March, 1937, high was a bear market. It saw the start of the Second World War, and greeted it with a fairly sharp, but short rise which turned out to have been wholly wrong in its premise that America would stay neutral and profit from a boom in exports. It sounded the recognizable death knell for the 1942-1946 bull market. The most violent September moves have been on the down side, as in 1929, 1930, 1931, 1937 and 1946.

Question

As of right now, nobody can know whether the decline from the pre-Korean-war high in the broad average of stock prices will go into history as a deep bull-market reaction or the start of some kind of bear market. We say "some kind" because bear markets, as technically defined, can be anything from mild to severe. With rails and other "war baby" groups recently in new high ground for the year or longer, and industrials and utilities short of their earlier highs, the technical "indications" are even less revealing than they usually are. If we are in a bear trend for the majority of stocks, the odds would be strongly for some net decline from here through September, since there has already been a larger-than-normal rebound. If we are in for nothing worse than a trading-range phase, pending some light on the maximum scope and character of tax boosts, there could also be some sell-off from recent highs. In short, allowing for prevailing uncertainties and the large July-August recovery, the chances for a September rise of any importance do not look too good to the writer of this column.

P-E Ratios

Price-earnings ratios, on a general average, have long been abnormally low, since investors doubted the indefinite continuation of record, or near-record, share earnings. It is now clear that they were right for the wrong reason. They were allowing for a business recession or depression. Instead, we now have guaranteed high business activity, as a result of the arms program, for as far ahead as anyone can look—but guaranteed lower average earnings, as a result of certain boosts in corporate taxes. Regardless of the reasons, the lower earnings have been substantially allowed for in stock prices, at least around the mid-July lows; and the market is not likely to discount

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
Celanese Corp. of America	6 months June 30	$3.61	$ .84
C. I. T. Financial Corp.	6 months June 30	4.51	3.05
International Paper	June 30 Quarter	2.42	1.49
Food Mach. & Chem.	June 30 Quarter	1.12	.75
Motor Wheel Corp.	June 30 Quarter	1.87	.93
New Jersey Zinc Co.	June 30 Quarter	1.05	.24
Studebaker Corp.	June 30 Quarter	3.19	2.76
Consolidated Natural Gas	6 months June 30	4.27	3.24
Maytag Co.	6 months June 30	3.16	1.20
Scott Paper	6 months July 2	4.04	2.73

the same thing twice. Barring global war, and after tax terms are known, the guarantee of protracted active business might readily result in some upward revision of price-earnings ratios. Broadly speaking, in short, much of the adjustment to higher taxes might take the form of a rise in price-earnings ratios, rather than radically lower stock prices.

Inflation

We are already having some further inflation. Judging by all past experience and by the usual political tendencies at Washington, controls will not fully check it. When the "shooting is over" and we get back some distant day to an uncontrolled economy, there is probably not one chance in a hundred that the dollar will be worth what it was, about 60 cents in terms of the prewar dollar, on the day before the Korean war started. Investors would do well to begin looking at stock prices in terms of dollars of constant purchasing value. It gives you a radically different picture from that provided by the standard averages or indexes. Thus, the recent recovery high of the Dow industrial average was roughly 217. That looks pretty high to the naked eye, comparing with major highs of about 212 in 1946, 194 in 1937 and 381 in 1929. But in dollars of 1935-1939 value, this figure of 217 is equivalent to about 128; while, with similar adjustment, the 1946 high becomes 159, the 1937 high 192 and the 1929 high 308. The more important a factor inflation becomes, the more necessary it must be to figure stock prices in "real dollars", not depreciated dollars. Compared with prewar, there has already been a 40% depreciation. Who knows whether the 1955 or 1960 dollar will be worth 40 cents, or 30 cents or what have you, against the present 60 cents?

Discounting

Hope or fear govern the going prices of speculative stocks far more than do statistics of earnings and dividends. As a result, the market at times can do some amazing things in forward discounting. Consider the case of American Radiator. In 1946 earnings were only 96 cents a share, dividends 40 cents; but the stock rose to a high of 23, discounting the anticipated postwar boom in building. The boom came. Earnings reached a peak of $2.57 a share in 1948, and dividends were $1.50; but in that year the stock got no higher than 16⅞. Although recent earnings were not greatly under peak levels, the stock did not get above 16⅜ in the 1949-1950 bull market. The maximum discounting of the building boom, in this issue, had come four years earlier. The stock slumped to 11⅜ recently, discounting an enforced curtailment in building before it can happen; and probably discounting more curtailment than will develop even eventually, barring global war. The lows since 1944 have ranged between 9 and 12½. Thus, with building stocks out of favor, and "war babies" all the rage, this stock very likely is in a range attractive for long-term accumulation. But whether the wait for good profits will be one year or five, nobody can say. The lesson is: figure prices as well as war-economy prospects before you get too bullish or bearish on any given stock.

Taxes

There has been a very considerable selective adjustment in the market, on the assumption that an excess profits tax is certain. The assumption may well be right. On the other hand, powerful arguments will be increasingly heard for a straight boost in the corporate tax rate, even if it has to go as high as 50%, in preference to the inequitable EPT. Should they prevail, probably many stocks are now too high and many too low. The now popular rails would surely slump back into unpopularity. The semi-depressed utilities would become more so. Chemicals, growth stocks in general, building stocks and automotive stocks would be in better demand.

Groups

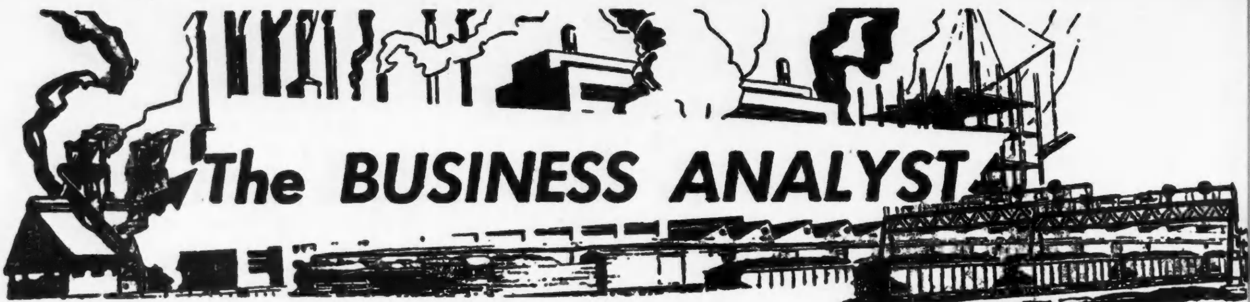
The rise in "war-baby" stocks was tending to flatten out even before the recent four-week market rebound reached its crest; and the larger week-to-week gains were in groups which had been over-depressed on exaggerated fears of the impact of war-economy controls, or taxes, on them: such as automotive and chemical stocks. However, the pace-setters of the 1949-1950 bull market did not get back to their former peaks; while even small further gains put most of the "war-baby" groups to recent new highs for the year or longer. Examples include rails, coppers, distillers, lead and zinc, metal fabricating, oil, rail equipments, steel, sugar, coal and textiles. Others with less of a "war-baby" tinge, but which reached new highs were farm equipment, paper stocks, tire issues and department store stocks.

Utilities

On the apparently certain 45% regular corporate tax rate, most leading electric utilities would still cover their present dividends by an adequate, but reduced, margin. A 50% rate would either eliminate all margin of coverage for a sizable minority or require distribution of a larger percentage of earnings than most managements have considered prudent heretofore. Higher regular taxes will be made the basis for applications for rate relief sufficient to permit the lawfully required reasonable return on invested capital; but rate cases can, and often do, take a long time to be settled. It appears that utility stocks may remain under a cloud for some time, holding rallies to small proportions.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

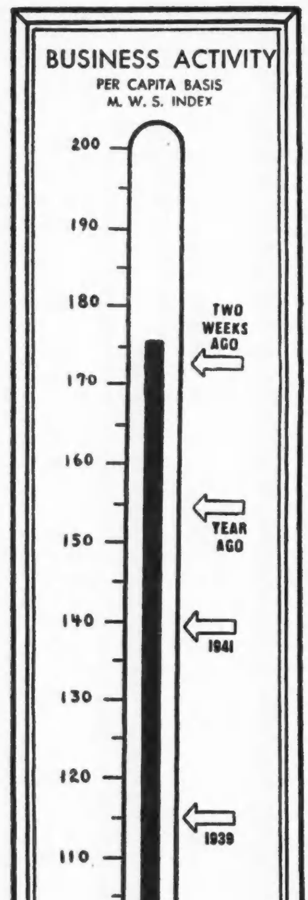
		1950	1949
Miami Copper	6 months June 30	$ .23	$2.38
Richfield Oil Corp.	6 months June 30	2.12	2.55
United Air Lines	June 30 Quarter	.88	1.47
American Locomotive	6 months June 30	1.16	1.50
American News Co.	6 months June 30	.88	1.13
Coca-Cola	June 30 Quarter	2.31	2.67
Continental Oil	6 months June 30	3.55	4.22
Union Oil of California	June 30 Quarter	.63	.94
Bucirus-Erie Co.	June 30 Quarter	.03	.99
American Seating	6 months June 30	.16	3.87



What's Ahead for Business?

By E. K. A.

Scare buying, first immediate result of the Korean war, seems now definitely on the wane according to latest reports. On the whole, panic buying, or hoarding, centered on products that were short during the last war, most of it at the retail and distributing level; or on hard goods for which there was still a measure of pent-up demand. Signs of this hysteria are now passing as it is becoming clear that no real shortages exist, and that even under a semi-war economy, a fairly big consumer market can be taken care of.



Department store sales hit their peak gain of 46% over last year in the week ended July 22, and the margin of increase had shrunk to 29% in the week ended August 5. Chain and mail order sales for July ran 25.8% ahead of the same month last year, mail order companies leading with a 46% advance. These statistics however require some qualification. First, they compare with a rather low year-ago level, virtually the bottom of the inventory recession. On this score alone, they hardly are as impressive as the figures seem to indicate. Secondly, in part at least they represent "borrowing against the future." This holds particularly true of hard goods—faced with consumer credit controls—, and soft goods lines as a result may prosper relatively longer but it may not be enough to hold up dollar volume at recent levels.

Interestingly, abatement of the buying frenzy is even felt in that tightest of all tight lines—steel. However, while "scare" orders have fallen off, pressure for quick delivery persists. No real easing in the steel supply situation is indicated. The simple explanation apparently is that the "scare" orders bumped against mill allocations and thus got nowhere. Pressure for delivery is explained by a desire to get what can be had before the arms program affects steel shipments.

Meanwhile the trend of inventories is definitely up. This is not greatly evident from latest published statistics which lag behind the events. Thus in pre-Korea June, total business stocks rose a mere $200 million to a $55.3 billion—just slightly under a year ago. But seasonally adjusted, that is allowing for the fact that inventories usually decline in June, the Commerce Department estimates that inventories climbed $900 million, of which $400 million was in retailers' stocks, the balance in manufacturers'. July should produce more incisive advances. Moreover, new orders have zoomed, creating the heaviest backlogs since the steel and coal strikes, but very little was attributable to direct military orders. The latter are still to come; so far it's been a mere trickle.

Nor will there be any early cutbacks in civilian output. In part this is due to the slow progress of military procurement scheduling and the desire, in the interim, to avoid anything which might create unemployment. In part it is due to the fact that raw materials stocks of manufacturers are still substantial, enabling them to "live" on their inventories for the time being even where ready replacement of scarce materials is no longer possible. The overall industrial picture is one of almost feverish activity in virtually every line and prospects point to its continuation until close to the end of the year. Durable goods output particularly is being pushed to the utmost to meet the latest buying boom. In electric appliances, for instance, a seasonal slack was anticipated to make itself felt soon; any prospect of it has now been completely eliminated and the second half could easily be the most active of the year.

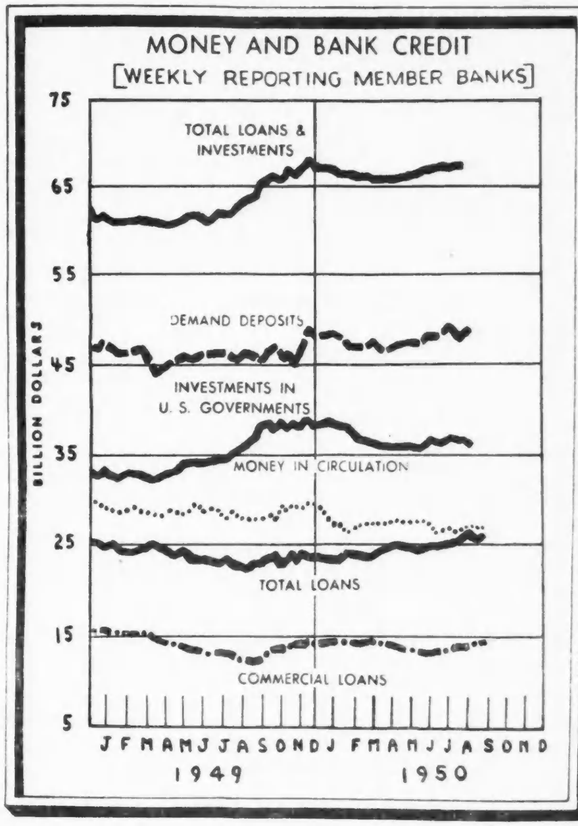
Time Table For Controls

All-out control powers for the President now are a virtual certainty but actual controls are likely to come piecemeal—mild at first—barring total war. Most of these powers will likely remain "stand-by" until after the elections. The President seems determined to keep controls to a minimum. As a starter, this means perhaps no more than allocations of a few essential raw materials such as steel, non-ferrous metals. Mortgage and consumer credit control also is in the cards. But no price control—unless living costs get out of bounds. No wage ceilings—unless union demands become excessive. No rationing any time soon since there are no civilian shortages yet. Main reliance will be placed on voluntary priorities imposed by industry itself, provided this will work adequately.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—Common stocks extended their recovery during the fortnight ended August 11, with 14 of our 46 group indexes reaching new highs for various periods, as tabulated on the second page following. The combined average of 325 active common stocks has now recovered all but 2% of its war-scare decline, though the 100 high priced stocks have retraced only ⅔ of the ground lost during those hectic three weeks. The low priced stocks have more than made up their loss. Bank stocks, however, have regained only half of the ground lost, despite a favorable report showing that the 6,410 member banks earned 8.5% on their capital during the first half, against only 8.1% in the corresponding period last year. Persistent strength continued in corporate bonds and preferred stocks, which carried the former to the highest average prices in nearly three years and the latter to the best level in nearly two years. In times of uncertainty, some investors seek shelter in fixed income issues. Abatement of scare selling in foreign government dollar bonds permitted a mild recovery to the best average price level in three weeks; but both series of the U. S. Victory 2½s were off fractionally. Among other sensible measures to avert inflation, the Federal Reserve Board advocates somewhat higher interest rates on future issues of Government bonds to make them more attractive to non-bank investors; but the Treasury insists that a mounting burden of indirect taxation, concealed in soaring living costs, is politically preferable to the smaller direct increase in carrying charges entailed in higher interest rates. There is a possibility, however, that the argument may turn out to have been largely academic. In the first 6 weeks of the new fiscal year, the Government's gross debt has expanded only $68 million and the budget deficit has been $748 million less than in the corresponding interval a year ago. For the first 9 days of August there has actually been a surplus of $214 million against last year's deficit of $178 million. What with heavier taxes to come, and accelerated collections, it could be that fiscal 1951 would end with a surplus! In the same six weeks, member bank reserve balances have expanded $378 million, largely in consequence of expanding loans and purchases of Government securities by the Federal Reserve Banks. In the five weeks ended August 2, weekly reporting member banks sold $1,142 million of U. S. Government securities and invested $1,029 million of the proceeds in other securities and business loans, resulting in a nominal reduction of $113 million in total earning assets. Meanwhile demand deposits rose $292 million. Extra cash required for consumer scare buying of goods was mainly responsible in July for a rather sharp decline in sales, and rise in redemptions, of savings bonds; so that the excess of sales over redemptions during the month amounted to only $26 million, compared with $189 million for July of last year. The nation's tax bill last year totaled $53.6 billion, or $359 per capita, compared with only $23 billion, or $171 per capita in 1942. Of last year's total taxes, the Federal Government collected 70%. After deducting Federal grants to state and local governments, however, the Federal Government retained only 65% of total tax collections. After two years of discussion, France has at last revalued the nation's stock of gold; thereby magically producing a bookkeeping profit of $365 million, which will be used to pay off her indebtedness to the Bank of France, and to banks of the U. S., Belgium, Italy and Switzerland. The step was finally taken to demonstrate the strength of her currency and thereby facilitate negotiation of other loans on more favorable terms. Belief that the U. S. will buy more Mexican raw materials under its expanding armament program has caused the U. S. dollar to sell at a small discount against the peso in the Mexican futures market.



TRADE—Scare buying of consumer goods has begun to taper off. Department store sales throughout the nation during the week ended August 5 were only 29% above a year ago, compared with a peak increase of 49% the week before and a four-weeks' average spurt of 35%. Several automobile dealers in populous centers also report that the rush has subsided. Last month, for the first time since World War II, France enjoyed a slight excess of exports over imports. Britain's excess imports were cut to about $104 million from near $159 million in June.

INDUSTRY—As it will be some months before the Government can step up its spending materially, current scarcities at mounting prices are chargeable solely to an upsurge in civilian buying, mostly for inventory building. Some day there will be a reversal of this attitude which could touch off another business recession.

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	July	1.18	1.20	1.20	1.55
Cumulative from mid-1940	July	398.8	397.6	384.6	13.8
FEDERAL GROSS DEBT—$b	Aug. 9	257.4	257.5	254.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Aug. 2	48.3	48.5	46.3	26.1
Currency in Circulation	Aug. 9	27.0	27.0	27.4	10.7
BANK DEBTS—13-Week Avge.					
New York City—$b	Aug. 2	9.17	9.19	8.74	4.26
93 Other Centers—$b	Aug. 2	13.75	13.64	11.97	7.60
PERSONAL INCOMES—$b (cd2)	June	218	217	208	102
Salaries and Wages	June	145	144	137	66
Proprietors' Incomes	June	43	41	42	23
Interest and Dividends	June	17	18	17	10
Transfer Payments	June	13	14	12	3
(INCOME FROM AGRICULTURE)	June	19	19	21	10
POPULATION—m (e) (cb)	July	151.8	151.6	149.3	133.8
Non-Institutional, Age 14 & Over	July	110.8	110.7	109.7	101.8
Labor Force	July	65.7	66.2	65.3	57.5
Military	July	1.31	1.31	1.46	1.89
Civilian	July	64.4	64.9	63.8	55.6
Unemployed	July	3.2	3.4	4.1	3.8
Employed	July	61.2	61.4	59.7	51.8
In Agriculture	July	8.4	9.0	9.6	8.0
Non-Farm	July	52.8	52.4	50.1	43.8
At Work	July	45.9	50.1	43.8	43.2
Weekly Hours	July	37.7	41.8	39.2	42.0
Man-Hours Weekly—b	July	1.73	2.09	1.72	1.82
EMPLOYEES, Non-Farm—m (lb)	June	43.9	43.3	42.8	37.5
Government	June	5.8	5.9	5.8	4.8
Factory	June	12.0	11.8	11.3	11.7
Weekly Hours	June	40.5	40.0	38.8	40.4
Hourly Wage (cents)	June	145.4	144.3	140.5	77.3
Weekly Wage ($)	June	58.89	57.72	54.51	21.23
PRICES—Wholesale (lb2)	Aug. 8	165.5	165.3	153.3	92.5
Retail (cdlb)	June	187.5	185.7	188.3	116.2
COST OF LIVING (lb3)	June	170.2	168.6	169.6	100.2
Food	June	204.6	200.3	204.3	113.1
Clothing	June	185.0	185.1	190.3	113.8
Rent	June	123.9	123.5	120.6	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	June	11.92	11.65	10.81	4.72
Durable Goods	June	4.50	4.20	3.60	1.07
Non-Durable Goods	June	7.42	7.45	7.21	3.65
Dep't Store Sales (mrb)	June	0.73	0.74	0.62	0.42
Retail Sales Credit, End Mo. (rb2)	June	10.35	10.02	8.14	5.46
MANUFACTURERS'					
New Orders—$b (cd) Total	June	22.5	20.3	16.3	14.6
Durable Goods	June	10.8	8.9	6.5	7.1
Non-Durable Goods	June	11.7	11.4	9.8	7.5
Shipments—$b (cd)—Total	June	20.7	19.9	17.7	8.3
Durable Goods	June	9.5	8.9	7.8	4.1
Non-Durable Goods	June	11.2	11.0	9.9	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	May	54.9	54.9	56.6	28.6
Manufacturers'	May	31.3	31.1	33.4	16.4
Wholesalers'	May	9.3	9.3	9.0	4.1
Retailers'	May	14.3	14.5	14.5	8.1
Dept. Store Stocks (mrb)	May	2.3	2.3	2.2	1.4
BUSINESS ACTIVITY—1—pc	Aug. 5	175.3	174.3	155.5	141.8
(M. W. S.)—1—np	Aug. 5	205.6	205.1	179.3	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 583)

COMMODITIES—After rising to new highs in over two years during the fortnight ended August 11, commodities turned mildly reactionary toward the end of the period, with futures closing down a little on the fortnight, while spot indexes retained part of their gain.

—————o—————

BUSINESS ACTIVITY, spurred by the nationwide buying spree, staged further expansion of 1.7% during the fortnight ended August 5, to a level 14.6% above last year at this time.

* * *

For the month of July, this publication's BUSINESS INDEX rose to 203% of the 1935-9 average—0.7 point ahead of June, and 14.2% above July of last year. On a per capita basis, the July index registered 173.5% of the 1935-9 average, compared with 172.9 for June, and 154.4 in July, 1949.

* * *

Not only consumers but even industrialists appear to have subordinated reason to emotion in the latest BUYING ORGY. With all due respect to the Government's proven ability to throw away money, it is doubtful whether more than half the additional $15 billion of appropriations the President has requested can be spent during the current fiscal year. This alone would call for expansion of only 3% in national production. This could be handled readily without leading to serious shortages or price increases were it not for additional fantastic private demand for hoarding and industrial equipment.

* * *

In fiscal 1941, following the outbreak of war in Europe, GOVERNMENT EXPENDITURES rose only $4.2 billion, which would be equivalent to about $7 billion at present wage and price levels. This amounted to only 3% of the gross national product at that time; yet the latter expanded 16% under the impact of additional private buying.

* * *

The largest rise in Government expenditures—$45.5 billion—for any year on record was in fiscal 1943, the second year of our active participation in the war; but by that time Government CONTROLS and scarcities had so restricted private spending that the gross national product expanded only $56 billion—nearly $10 billion less than the increase in Government expenditures.

* * *

With the phenomenal increase in production capacity during the past decade,

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	June	199	195	169	174
Mining	June	151	145	133	133
Durable Goods Mfr.	June	236	231	194	220
Non-Durable Goods Mfr.	June	186	181	161	151
CARLOADINGS—t—Total	Aug. 5	837	845	717	833
Manufactures & Miscellaneous	Aug. 5	393	387	374	379
Mdse. L. C. L.	Aug. 5	86	84	89	156
Grain	Aug. 5	57	63	60	43
ELEC. POWER Output (Kw.H.) m	Aug. 5	6,246	6,190	5,466	3,267
SOFT COAL, Prod. (st) m	Aug. 5	10.6	10.8	7.5	10.8
Cumulative from Jan. 1	Aug. 5	277	266	294	446
Stocks, End Mo.	June	51.3	44.8	74.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Aug. 5	5.6	5.5	4.7	4.1
Gasoline Stocks	Aug. 5	109	109	108	86
Fuel Oil Stocks	Aug. 5	42	42	67	94
Heating Oil Stocks	Aug. 5	62	61	72	55
LUMBER, Prod.—(bd. ft.) m	Aug. 5	915	880	675	632
Stocks, End Mo. (bd. ft.) b	June	6.1	6.1	7.3	12.6
STEEL INGOT PROD. (st) m	July	8.09	8.13	5.78	6.96
Cumulative from Jan. 1	July	55.2	49.1	51.8	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Aug. 10	164	209	257	94
Cumulative from Jan. 1	Aug. 10	7,213	7,049	5,044	5,692
MISCELLANEOUS					
Paperboard, New Orleans (st)t	Aug. 5	334	248	229	165
Cigarettes, Domestic Sales—b	June	32.8	32.7	32.8	17.1
Do., Cigars—m	June	471	425	519	543
Do., Manufactured Tobacco (lbs.)m	June	20.1	19.0	20.6	27.6
Whiskey Stks., End Month (tax gals.)m	May	637	631	600	500
Motor Vehicles, Factory Sales—t	June	857	697	594	352

PRESENT POSITION AND OUTLOOK

the relatively small volume of military orders at present contemplated can be handled without serious curtailment of supplies to civilians for current use; but it would be prohibitively costly for any industry to construct and maintain enough standby capacity to meet these periodic upsurges in civilian demand for INVENTORY BUILDING which are mainly responsible for the unpopular business cycle.

* * *

It is estimated that armament requirements under present plans will call for only a readily manageable slice of our METALS —5% of the steel, 10% of the copper, and 15% of our aluminum production. In the peak war years, 1943 and 1944, military requirements took 60% of our steel ingot production. Construction alone is now devouring 28%, and motor vehicles 12%. Shipbuilding during the last war consumed 20% of our steel output. This time such need will be comparatively small. We didn't scrap our navy after world war II, and we have plenty of moth-balled merchant ships that are already being put back into commission. Construction of new aluminum, oil and synthetic rubber plants then took nearly 5% of our steel output. The Government now has standby plants for producing aluminum and synthetic rubber which are being reconditioned for operation.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m— Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and charge accounts. st—Short tons. t—Thousands. *—1941: November, or week ended December 6.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

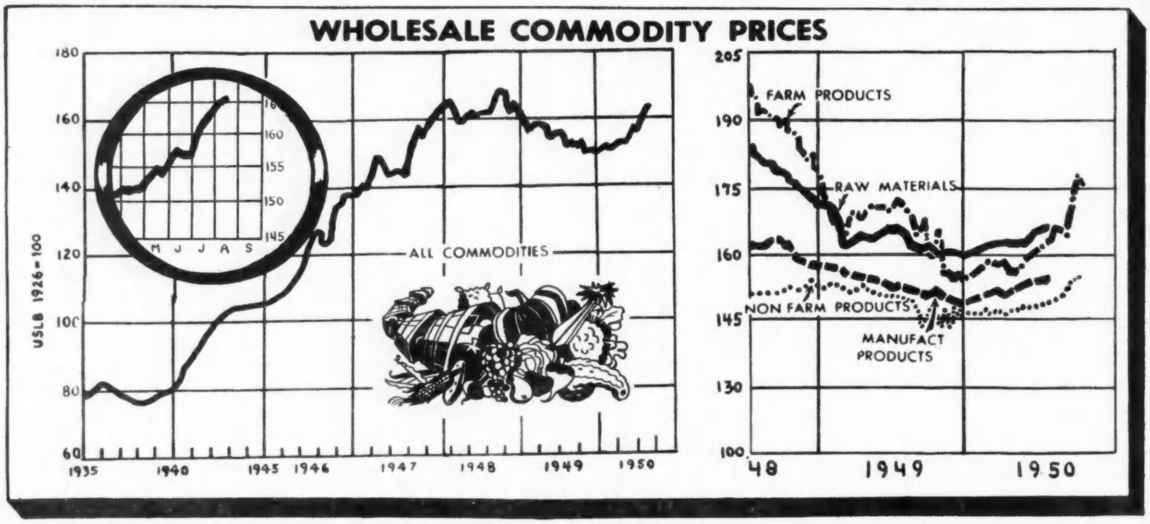
No. of Issues (1925 Close—100)	1950 Indexes High	Low	Aug. 4	Aug. 11
325 COMBINED AVERAGE	153.3	134.7	150.4	150.9
4 Agricultural Implements	207.5	180.7	204.7	203.1
10 Aircraft (1927 Cl.—100)	262.9	170.8	262.9D	253.8
6 Air Lines (1934 Cl.—100)	538.3	451.7	538.3C	506.8
7 Amusement	104.4	78.0	87.3	86.3
10 Automobile Accessories	230.3	190.9	206.0	209.9
12 Automobiles	36.5	28.5	36.1	36.4B
3 Baking (1926 Cl.—100)	23.3	19.0	19.4	19.5
3 Business Machines	276.5	226.5	246.5	241.2
2 Bus Lines (1926 Cl.—100)	176.6	145.9	154.8	148.6
5 Chemicals	304.2	256.4	284.5	289.9
3 Coal Mining	14.3	11.3	13.3	13.5
4 Communication	61.6	41.9	52.9	55.9
9 Construction	64.9	51.3	51.7	52.4
7 Containers	342.1	282.1	316.7	316.1
9 Copper & Brass	103.6	80.3	103.6B	101.1
2 Dairy Products	78.3	68.1	76.0	76.9
5 Department Stores	67.2	56.6	64.7	64.6
6 Drug & Toilet Articles	209.8	170.2	179.6	186.5
2 Finance Companies	361.8	253.8	260.6	270.3
7 Food Brands	180.9	162.0	174.3	173.6
2 Food Stores	108.0	86.3	93.3	92.0
3 Furnishings	80.8	61.1	64.8	69.9
4 Gold Mining	753.5	509.7	554.5	540.3

(Nov. 14, 1936, Cl.—100)	High	Low	Aug. 4	Aug. 11
100 HIGH PRICED STOCKS	96.03	85.27	92.38	93.21
100 LOW PRICED STOCKS	183.93	151.88	180.25	179.14
5 Investment Trusts	79.0	66.5	72.1	72.4
3 Liquor (1927 Cl.—100)	930.8	797.3	909.0	930.8C
11 Machinery	165.5	140.6	161.4	159.9
3 Mail Order	122.9	99.6	108.1	110.7
3 Meat Packing	99.0	85.9	95.3	94.1
12 Metals, Miscellaneous	176.2	139.9	175.2	176.2B
4 Paper	52.0	39.5	49.0	52.0T
30 Petroleum	296.3	241.8	296.3	297.8B
27 Public Utilities	153.7	127.7	130.3	133.1
5 Radio & TV (1927 Cl.—100)	35.3	18.1	24.8	27.1
9 Railroad Equipment	55.2	43.0	55.2B	53.8
24 Railroads	28.0	22.3	28.0B	27.6
3 Realty	35.9	30.1	31.9	32.4
3 Shipbuilding	166.2	139.7	166.2D	163.6
3 Soft Drinks	391.6	295.9	296.9	307.8
15 Steel & Iron	125.1	96.1	125.1B	124.9
3 Sugar	60.5	48.7	59.8	60.5D
2 Sulphur	352.1	301.6	347.6	350.5
5 Textiles	156.9	119.9	156.9B	155.1
3 Tires & Rubber	41.7	32.0	41.4	41.7D
6 Tobacco	88.2	77.3	79.2	79.7
2 Variety Stores	352.3	313.2	314.4	317.8
19 Unclassified (1949 Cl.—100)	110.0	93.2	102.0	102.4

New HIGH since: B—1948; C—1947; D—1946; T—1929.

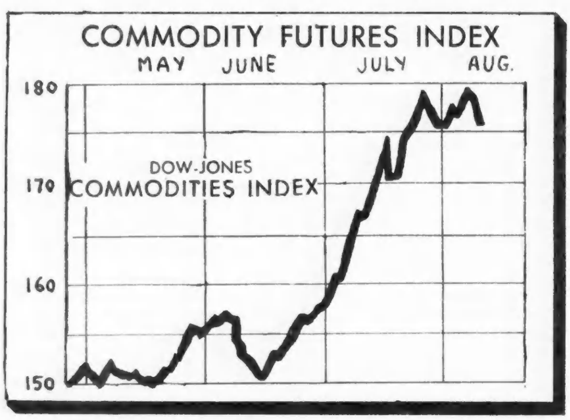
Trend of Commodities

After soaring to new highs in over two years, commodity prices staged a comparatively mild reaction during the latter half of the week ended August 11. Corn, wheat and cotton were off a little on the fortnight and rubber was down 10%; but tin soared 9½ cents, closing at $1.045, highest price in history, on news that the British Government had frozen its reserves of the metal to build up its strategic stockpile, and also to prevent Russia from acquiring supplies in the London market. Tin has been advancing since the outbreak of war in Korea, on fears that the trouble may spread to Malaya, the world's chief sources of supply. Pig iron was advanced something over $1 a ton, the first price change of more than a few cents in nearly two years. Platinum has risen in the black market to $15 a troy ounce above the $77 quoted by refiners, who report that most of their output is going to war plants, leaving little for jewelry fabricators. Hides staged an additional advance of 3%, and wool 12%. Consumption of apparel wool during the second quarter totaled about 103 million pounds (40% more than a year ago), thereby reducing stocks to around 40 million pounds; but new supplies now coming in from abroad and from the domestic clip are believed to be exceeding current consumption. Several causes contributed to the precipiate reaction in rubber after the price had been jacked up to the dizziest altitude in 24 years because of Government stockpiling by the U. S., Canada, Great Britain, France and Russia, intensified by fears that communist attacks might spread to such important producing areas as Malaya and Indonesia. But the main reason was that buyers, aghast at the extravagant advance, simply withdrew their orders.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — Agust, 1939, equals 100

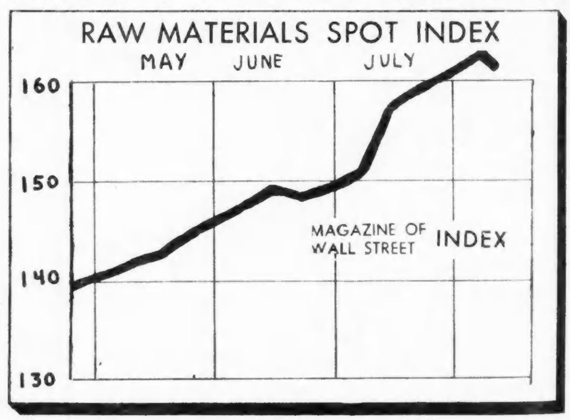
	Date Aug. 14	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	307.7	303.0	286.3	258.4	247.8	243.5	156.9
11 Imported Commodities	331.2	314.3	291.8	259.9	252.1	247.7	157.3
17 Domestic Commodities	293.4	296.0	282.7	258.6	244.5	240.8	156.6
7 Domestic Agriculture	348.0	354.4	348.1	324.4	305.3	289.8	163.9
12 Foodstuffs	363.9	369.4	354.9	329.8	309.0	296.9	169.2
16 Raw Industrials	282.7	272.1	257.9	227.2	221.0	218.6	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	164.6	161.5	164.0	95.8	85.7	78.3	65.8	938
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	179.8	146.2	184.4	111.7	88.9	67.9	57.7	866
Low	140.8	128.6	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

Contract for the construction of a 60,000 barrel per day fluid catalytic cracking unit has been awarded by the **Gulf Oil Corporation.** The new "cat cracker" will be erected at Port Arthur, Texas to produce ingredients for synthetic rubber, aviation gasolines and fuel oils. Cost of the facility will be approximately $8 million and it may be completed by the middle of 1951. The motivation for this important new project stemmed from Gulf Oil's determination to look ahead and be in better position to meet military requirements if the mobilization program should expand.

The **Fairchild Engine & Airplane Corporation** has received an additional large order for Fairchild C-119 "Packets" from the Air Force. The number and value of these twin engined troop and cargo plane transports is not disclosed for military reasons, but the order will call for a gradual stepping up of the company's production rate as soon as necessary raw materials, parts and tools can be obtained.

A new barge, capable of transporting huge quantities of paper stock for Life Magazine from the mills of **St. Regis Paper Company** in Bucksport, Maine, to Chicago has just been launched with appropriate ceremonies by the builder, **Dravco Corporation.** The new barge was specially designed to permit transport down the coast from Maine, up the Hudson River, through the New York Barge Canal and over the Great Lakes.

Sheet metal operations of the **National Radiator Company** have increased so consistently that the company will soon begin construction of a new million-dollar plant in the greater Altoona, Pa. industrial area. By speeding up the construction, the company hopes to have the new facility in operation by the end of this year. National Radiator's recent development of numerous new products, including non-ferrous convectors and baseboard radiation has increased sheet metal requirements substantially above present capacity.

Carrier Corporation has announced completion of its 2000th huge centrifugal refrigerating machine, a device invented by Dr. Carrier back in 1921 and generally considered one of the greatest advances in the refrigeration field. Significance attaches to the fact that the first 1000 of the machines were manufactured in 20 years prior to 1941, and the second 1000 in the past ten years. The company anticipates sale of the next 1000 within five years. The latest machine is being installed by Eastman Kodak Company in an ultra-low temperature project.

To mark its twentieth year in the electric shaver industry which it founded in 1930, **Schick Incorporated** has developed its new Schick "20" that it claims is the finest instrument in its field of all time. This device has a real rotary motor and a new high velocity shearing head with a longer cutting thrust for quicker, easier shaving, while an exclusive combing edge guides the whiskers into slots for ready amputation. In this newest model went all the knowledge and experience gained in many years of manufacturing.

The first all-electric window lift to be offered as standard equipment on American-built automobiles has been announced by **Chrysler Corporation.** In most other power-lift systems, hydraulic fluids are necessary in connection with one central motor-pump unit. A break or leak in this type of system forces a complete failure in operations. The Chrysler device has an individual motor in each door panel, activated by separate button switches on each door or by a master panel that permits all windows to be lifted or closed.

Niagara Hudson Power Corporation has announced that the site of its new 160,000 kilowatt steam-electric generating station at Albany will be on the west bank of the Hudson River. Work on this $27 million project is to start immediately, with completion planned for the fall of 1952. The Albany station will consist of two 80,000 kilowatt units, with ample room to double the size later if conditions warrant. The site is not only close to the five largest cities in that part of the state, but permits ready connection with the system's 89 other power plants in the large territory served. The Hudson River will provide an unlimited supply of cold water for condensing purposes.

Cumulative evidence of increased military production is coming to hand. Stepped up manufacture of **Lockheed Aircraft Corporation's** jet interceptor, jet trainer and anti-submarine planes is beginning immediately. New employees are being added at the rate of 50 per day. A letter of contract from the Air Force, followed by another letter of intent from the Navy, directs Lockheed to accelerate the production of all its currently produced aircraft. For more than five years past, the company's jet production lines have been in continuous operation, with the result that more than one jet plane per day has been built for the military services.

According to the **Refrigeration Equipment Manufacturers Association,** the age-old annoyance of damp basements in summertime, occasioned by moisture condensation on cold water pipes and floors, has been fully eliminated by a relatively new and much improved product. A small unit weighing about 100 pounds automatically dehumidifies the cellar, precluding rusty furnaces, moldy luggage, ruined tools and musty odors. The cost of operating these devices is only a few cents a day.

Since the first electronic dictating machine was introduced in 1940, annual sales of this equipment have expanded more than five-fold and may reach $40 million in the current year. Only in recent years has wire recording been incorporated into these devices, attended by markedly improved efficiency. **Crescent Industries, Inc.** has developed the latest entrant in the field, known as "Steno," and the model has many new features. With high fidelity and simple push button operations, Steno provides a remote station for secretary's use with a built-in intercommunication system for two-way conversations, and a split-second timer making it possible to swiftly locate any word in the dictated copy.

In an experimental transmission from Washington, D. C., the **Radio Corporation of America** has demonstrated for the first time that its all-electronic color television system can use standard coaxial cables to carry programs in color from point to point over long distances. During the demonstration, color signals were transmitted over more than 200 miles of coaxial cable and then put on the air in two frequencies. The color images were picked up in color sets at RCA laboratories in Princeton, N. J., and one received by NBC's experimental station in Bridgeport, Conn. was rebroadcast from there and received on a converted VHF color receiver in Westport. Meanwhile, all standard black and white television sets in the New York area tuned into channel 4 received the Washington program in black and white.

Crosley Motors, Inc., as part of a long range program of product diversification, has developed a very novel item called FarmOroad. and is already in production. This ingenious vehicle not only performs all the functions of a light tractor on the farm, but can also deliver speeds up to 60 miles an hour on the roads. The basic vehicle is a low slung, squarely built two-passenger car with heavy duty rear axle and transmission, and with six speeds forward and two in reverse. Crosley is offering a full line of plows, harrows, mowers and cultivators as supplementary equipment for the new dual-purpose vehicle.

Not content with recent construction of some ultra-modern facilities in Texas, mentioned in our columns a short time ago, **National Biscuit Company** now plans to build a huge new cracker and cookie plant in Chicago. This giant structure will cost about $8 million, will be two stories high with a big tower section in which to store essential materials. Upon completion, the new bakery is expected to turn out about 30 million crackers in an eight-hour day.

To broaden **Commercial Solvents Corporation's** base in the fertilizer field, the company will construct a million-dollar addition to its ammonia plant at Sterlington, La. to produce nitrogen solutions. The Sterlington plant was built for the Government during the war by Commercial Solvents, and was purchased for $6 million in 1946. A large amount of the anhydrous ammonia production is being used for direct application to the soil, principally in Lousiana and Mississippi.

Among many new products pouring forth from the laboratories of **E. I. du Pont de Nemours** is a high quality plastic electrical insulation which will not support combustion. The newcomer is already available in commercial quantities and is being offered to the wire, cable and electrical industries as "Rulan." Whereas flammability has been a disadvantage of plastics with good electrical properties, tests with Rulan show that it will not burn after the flame has been removed, nor drip when molten. Its electrical properties almost, though not quite, equal those of the very efficient polythene.

The election of Charles W. Bryan, Jr. of New York City as president of **Pullman-Standard Car Manufacturing Company** has been announced by the parent concern, Pullman, Inc. Champ Carry, president of Pullman, Inc., will continue as board chairman of the car-building subsidiary. Mr. Bryan had long and valuable experience as a leading executive of Federal Shipbuilding and Dry Dock Company, including important work in engineering, contracting and construction.

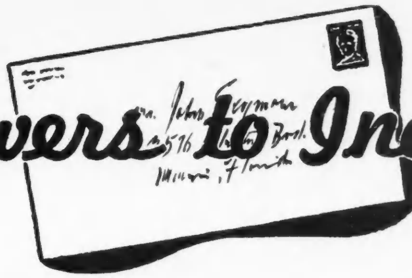
In line with plans to establish a number of large new distribution centers throughout the United States, **International Harvester Company** will soon spend $5 million for a new service parts and machine depot in a Chicago suburb. This new facility, comprising a one-story building with an area of almost 26 acres, will be the company's largest distribution center in the country.

A revolutionary new way for the householder to use glue, packaged in powder form, has been announced by **United States Plywood Company.** The new glue unit contains three packets, each one just enough for an average job. The glue in each packet is accurately proportioned so that when mixed with half a teaspoonful of water it is ready for immediate use, with no wastage or inconvenience from dried up tubes or messy containers.

Philco Corporation has developed a novel method of training its distributors in the intricacies of television construction. A new motion picture entitled "the Story of Philco Quality in Mass Production" is being shown to dealers on a country-wide scale. Every step in the construction of the newest TV sets, from the felling of logs in Philco's lumber tract through the production of finished cabinets is depicted. The development and production of picture tubes and television tubes, tuners and assembly are also shown in complete detail, together with activities in the company's modern laboratories.

In anticipation of winter demand, the **White Motor Company** is offering the newest thing in snow plow attachments for highway and street department trucks specially designed for the purpose by this manufacturer. The truck is the new model White 3000 with dump body and a short wheel base to facilitate winter road clearing. The powerful snow plow attachment, easily removed, is operated by hydraulic jacks and is supplied by an outside equipment manufacturer. The cab is exceptionally roomy to accomodate the crew.

The **Standard Oil Company** (Ohio) and the **Pure Oil Company** jointly have begun construction of a 58-mile petroleum products pipe line between Dayton and Cincinnati. This new 8-inch line is expected to cost around $1.4 million and will be placed underground. Upon completion, the companies will effect cost savings on present heavy tank truck transportation on Ohio highways and assure the Dayton area of an adequate supply of petroleum products in the event of any emergency.



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Dow Chemical Company

"Dow Chemical Company is generally regarded as a growth company. Will you please show recent annual sales and earnings growth record? Also what is company's expansion program over the near future?"

T. T., Raleigh, N. C.

Sales of Dow Chemical Company for the fiscal year ended May 31, 1950 were $220,830,183.

Net earnings amounted to $33,813,105 on a total income of $225,942,033.

The increased sales figure, up 10% from the previous year, was due almost entirely to greater volume of business and there was only a slight increase in chemical prices generally.

Industrial chemicals were credited with 56% of the sales dollar, plastics 23%, agricultural chemicals 8%, magnesium 7% and pharmaceuticals 6%. Most lines were reported operating at capacity after recovering from a somewhat slow market in July and August 1949.

An estimated $50 million will be spent on expansion during the current fiscal year and the company has averaged $45 million annually on construction over the past five postwar years. Dow said it did not anticipate the current program would require any major financing.

Earnings in the preceding fiscal year amounted to $4.44 per share but the latest fiscal year showed an increase to $5.34 per share but based on average number of shares outstanding earnings per share would have been $5.73 per share.

Dividends thus far this year have been $1.40 in cash and 2½% in stock. Dividends in full year 1949 were $1.30 per share.

Balance sheet as of March 31, 1950 showed total current assets of $107,373,608 and total current liabilities of $43,951,817, leaving net current assets of $63,421,791.

Pillsbury Mills

"Are any of Pillsbury Mills products suited to a war economy as well as to peacetime uses? How are the prospects for the company in coming months?

S. M., Newport News, Va.

Pillsbury Mills is in a better position than at the beginning of World War II to help meet any food emergency that may come with the Korean war.

Pillsbury sales for the year ended May 31, 1950 totalled $200,963,966, an increase of $525,000 over the year before.

Net earnings for the year, $1,524,915, were $2.16 a share on the common stock as compared with $3.51 in the preceding year. Margins continue narrow in the highly competitive bakery flour business, lower on soybean processing.

All four of the new prepared mixes introduced nationally since the war—Pillsbury Pie Crust Mix, Hot Roll Mix, White Cake Mix, Chocolate Fudge Cake Mix—are being sold in volume in today's markets.

Company's new mixes appear economical for a war economy and also suitable to a peacetime economy as well.

On the West Coast, flour, prepared mix, and feed sales all show material improvement.

Pillsbury's export tonnage continues to grow all over the world, in spite of dollar shortages and other trading handicaps.

Paper mill and bag factory at Wellsburg, West Virginia, manufactured 14 million more paper flour sacks than the year before.

In spite of the fact that over 100 flour mills have shut their doors, there remains more milling capacity than the world's flour market can absorb.

Dividend payments in 1949 amounted to $2.00 per share and the 50 cent quarterly rate is continuing this year.

Continental Can Company

"Please furnish recent annual earnings of Continental Can Company, also sales volume and dividends."

B. E., Bethlehem, Pa.

Consolidated net earnings of Continental Can Company Inc. and wholly owned subsidiaries, applicable to the common stock for the 12 months ended June 30, 1950, were equivalent to $4.09 per share as compared with $3.54 per share in the corresponding 12 months period ended June 30, 1949; $3.83 per share reported for the 12 months ended March 31, 1950, and $3.66 per share for the calendar year 1949.

The current report, which is subject to year-end adjustment, shows consolidated net earnings of $13,496,651 after income taxes and other charges, which, after deducting dividends of $562,000 on the $3.75 cumulative preferred shares, left $12,934,151 applicable to the 3,158,801 common shares outstanding on June 30, 1950.

Before depreciation, depletion and income taxes, consolidated profit for the period amounted to $30,426,883 compared with $25,202,609 earned before such charges in the 12 months ended June 30, 1949. Depreciation and depletion deducted in the current

report totalled $7,255,441, with $9,674,791 added to the reserve for income taxes to cover the estimated amount required for this purpose. The currently reported earnings of $12,934,151 applicable to the common stock, compared with $11,190,348 reported for the 12 months ended June 30, 1949.

Net sales for the 12 months ended June 30 amounted to $357,-795,570 against $325,156,416 reported for the corresponding 12 months ended June 30, 1949 and $335,832,362 for the 1949 calendar year.

Dividends in 1949 amounted to $1.50 per share and 80 cents has been paid in the first half of the current year.

Expansion Program: Company reports that it has opened new plants at Pittsburgh and Milwaukee.

Company has also filed application for lease of two areas on Terminal Island, near Los Angeles, for construction of a metal container warehouse and factory to cost about $2 million.

Lehigh Coal & Navigation Company

"Please furnish information as to recent earnings of Lehigh Coal & Navigation Company and its subsidiaries and also prospects over coming months."
C. E., LaSalle, Ill.

Consolidated net income of Lehigh Coal & Navigation Company and subsidiaries for the six months ended June 30, 1950, amounted to $943,876 or 49 cents per share against $725,991 or 38 cents per share for the first six months of 1949.

Lehigh & New England Railroad Company, a subsidiary of the company, reported a net income for the first six months of $806,039, as compared with $520,-769 for the same period last year.

Lehigh Navigation Coal Company Inc., the company's wholly owned coal producing and marketing subsidiary, reduced its loss of $514,638 for the first six months of 1949 to a loss of $142,-537 for the first half of 1950.

Coal sales of Lehigh Navigation Coal Company, were up sharply from last year. Total tons sold jumped from 1,679,593 in the first six months of 1949 to 1,863,-395 in the first half of this year, an increase of 11%.

With the exception of small decreases in two industrial sizes, sales of all sizes of coal were either equal to or somewhat better than last year.

Domestic home heating sizes are all in good demand and should continue to be so for some time to come. It must be remembered that we have just come through two of the warmest winters in history in the anthracite consuming territory and if we have anything like a normal winter this coming burning season, it is likely that coal may be in short supply.

Of course, we do not know how the Korean war situation will develop but it will not cause any decrease in the demand for anthracite. Sales of industrial sizes of coal were up sharply in recent months, one size by as much as 62%. A continued strong demand is expected in coming months for all sizes. Some industrial plants are already beginning to convert from other fuels to coal.

Prospects for the second half of this year appear favorable and it is anticipated that net income for the entire year will approximately $2,800,000, compared with $2,263,208 in 1949.

Dividends in the first half of 1950 amounted to 30 cents per share against 50 cents paid in the full year of 1949.

James Lee & Sons Company

"I am wondering if the carpet business is improving and particularly am interested in the recent operating record of James Lee & Sons Company."
N. B., Chester, Pa.

Sales of James Lee & Sons Company for the six months to June 30, 1950 were at an all-time high of $31,130,296. Net profit for the same period totalled $2,357,-132.

Net earnings after estimated income taxes and allowance for dividends on the company's preferred shares outstanding, were equal to $2.82 per share of common stock. Two regular dividends of 35 cents per share have been paid on the common stock outstanding on March 1 and June 1, and quarterly dividends have been paid on the preferred shares.

The carpet and carpet yarn divisions of the company are currently accounting for approximately 86% of total net sales. Company's manufacturing equipment in these divisions has been working at full capacity and backlog of orders appears excellent.

In an effort to combat the rising costs of carpet wools which have gone to unprecedented levels and have necessitated a series of price increases on finished products this year, the company has introduced this year two new lines of carpeting made of cellulose acetate rayon fibre, Estron, which can be sold at advantageous prices and should be less susceptible to rising raw material costs. The percentage of production represented by these lines is still small, however, and it is too soon to measure consumer reaction to this innovation.

Worsted yarn sales exceeded last year's figures but competition in the industry is still severe and prices are unsettled. As in the case of foreign wools, the domestic wool market has risen sharply, indicative of the worldwide shortage of this basic raw material.

Lee's position in volume, however, in these two fields has been well maintained.

Earnings for the full year ended December 31, 1949 were $4.37 per common share, compared with $5.68 in 1948.

Prospects over coming months appear favorable.

American Hawaiian Steamship Company

N. B., Chester, Pa.
"Please furnish recent balance sheet figures and earnings of American Hawaiian Steamship Company."
A. T., Toledo, Ohio

Consolidated operating revenues of American Hawaiian Steamship Company, listed on the New York Stock Exchange, for the six months to June 30, 1950 were $10,021,952 and net profit was $263,273 equal to 70 cents per share on 372,000 shares outstanding.

This compares with operating revenue for the six months to June 30, 1949 of $13,626,357, net profit of $190,036, equal to 51 cents per share on 373,000 shares outstanding.

Earnings are subject to final disposition of claims for additional compensation on lost and titled requisitioned vessels; and on vessels used by the Government under bareboat requisition.

Consolidated balance sheet as of June 30, 1950 showed total current assets of $12,042,826 which included cash and U. S. Government obligations of $8,-725,374. Total current liabilities were $2,799,707 leaving net current assets of $9,243,119.

Dividends in 1949 totalled $3.00 per share and $1.50 was paid in the first half of the current year.

For the fiscal year ended December 31, 1949 operating revenues were $27,417,854 and net profit was $933,683, equal to $2.51 per share.

Can Steel Companies Fill Military Civilian Needs?

(*Continued from page* 571)

now mining large quantities of ore from fabulous deposits in Venezuela, and it will not be long before United States Steel will have similarly large ore production in the same country. Several years will elapse before the big ore beds in Canada, now being developed by the joint enterprise of several prominent American steel concerns, can become productive, but eventually the total ore supply for many years to come will be abundant.

With capacity operations pretty well assured for most units in the industry throughout the remainder of 1950, it is likely that pretax earnings for the full year will continue close to the rate established in the first six months, unless the Government decides to impose some rather stiff price ceilings. The Administration is frowning on strikes that might hamper production in such essential industries as steel, but in an election year it remains to be seen whether wage costs will be permitted to rise or not.

The outlook for specialists in alloy steels is above-average bright compared with a year ago, when recessionary influences were strong. Backlog orders in this division have mounted sharply of late and assure high level sales for some time to come. Special tool steels should continue in heavy demand, while alloys for small arms, armor plate and other ordnance will be purchased on an increasing scale. Such concerns as Crucible Steel, Carpenter Steel and all the big firms including alloys in their output stand to profit from sales of these specialties, where margins normally are more satisfactory than on other products.

Some of the largest and best integrated steel concerns, such as U. S. Steel, Bethlehem and National Steel are in a particularly favorable position to fare well under the new conditions now developing. In most of these situations, favorable earnings in the first half year have not yet fully reflected operating economies gradually achieved by large scale expansion and modernization programs, or those in prospect for the medium term. All of these concerns are well situated to adjust their output to meet the changing pattern of demand now emerging from defense planning, and to benefit increasingly from much improved facilities. "Big Steel," for one, is anticipating the broadening steel demand by promptly leasing through a subsidiary a large steel foundry in California, built by the Government in the last war and since held idle.

Not all concerns fared so well as the majority in the first half year, some for competitive reasons and others because of slackened demand for their specialties. A. M. Byers, for example, reported a deficit of $1.85 per share for nine months ended June 30, 1950. This largest producer of wrought iron pipe has experienced leaner earnings for several years due to restricted demand, and in view of the current outlook may find difficulty in restoring operations to a profitable basis. In the fiscal year ended June 30, the earnings of Colorado Fuel and Iron Company were reported as $3.30 per share compared with $8.46 the year before. C. F. & I. is a large producer of steel rails and is fully integrated. The poorer showing in fiscal 1950 was mainly due to last fall's steel strike, and as the company's backlog orders have recently expanded rapidly, earnings from now on will probably improve substantially.

1950 Should be Excellent

All considered, the steel industry should complete 1950 with a very satisfactory earnings record, and because of world uncertainties the outlook for 1951 and beyond has a bright tinge as to earnings potentials. While heavier taxes will cut into earnings, pretax income should expand as a partial offset and the current high rate of net profits provides an ample cushion against any decline. Normally, a number of the strongest steel concerns could comfortably increase their dividends in the last half, and some may do so. On the other hand, conservatism will more likely prevail until the Defense Program gets well under way, but this would only strengthen the potentials of carefully selected steel companies for stabilizing dividends at current rates.

Excess profits taxes, not likely to be enacted before next year, will of course change the earnings outlook subsequently despite virtual assurance of continued capacity production and sales. But in this respect too, the industry enjoys a relatively more favorable tax base than many other lines, particularly if the invested capital base is permitted for calculation of the tax. Capital investment in the steel industry is traditionally high, has been substantially increased during postwar and continues to rise.

Korea Speeds Europe's Financial Adjustment

(*Continued from page* 567)

Now that the war in Korea has shown the weakness of the West in manpower and tanks and guns, Western Europe—prodded by the U.S.—is beginning to bestir herself on behalf of western defense. Mr. Churchill's powerful speech in the Parliament three weeks ago also rang the bell. In a memorandum prepared early this month by the Cabinet and sent to Washington, the British propose to increase their defense budget by about $1.1 billion a year to $3.1 billion a year but add that they can do this only "with the help of the United States."

In comparison, on the basis of the latest calculations, we are proposing to raise our defense expenditures during the current fiscal year by about $16 billion to $30 billion. However, in relation to their national income (see the accompanying table), the British would spend only about 3 per cent less than the United States.

Western Europe is entering a period of quickened defense expenditures much as the United States, at a time when she is enjoying the greatest postwar prosperity. Though the proposed defense expenditures are smaller than here, the danger of inflation is perhaps greater, particularly in Great Britain and the Scandinavian countries, because there still is too much purchasing power in relation to available goods. The danger of inflationary resurgence is perhaps least in Western Germany and Italy, where there is still unemployment and considerable unused industrial capacity.

Since European taxes are relatively higher than ours, it will be difficult to restrain inflationary forces by increasing them. Instead, Western Europe will have to cut down heavy investments on peacetime economy projects and

on welfare state programs. The latter idea will be hard to sell to the socialist governments, and unquestionably there will be opposition to the tightening of belts "in order to defend the capitalist world."

If the prices of raw materials are going to continue to rise as they have during the past few weeks, which would mean that the cost of imports for most of the Western European countries would go up faster than the prices of their exports, then the recent statement of Mr. W. C. Foster, the acting administrator of ECA, that Europe's dollar position may seriously deteriorate before the middle of next year, might prove correct. However, the size of the announced defense programs does not entirely warrant such a forecast. Besides, as was already pointed out, Europe can always limit her dollar outlays by reducing her investments in peacetime projects and by cutting down on welfare expenditures.

The possibilities that the increased defense programs may be carried out without too great a setback for Western European economies are largely due to the rehabilitation financed by the Marshall Plan. The steel surplus, which looked like a headache only a month or so ago, will now prove of great advantage in pushing the output of much-needed tanks, trucks, and guns. The Korean war is also an argument for the speedy carrying out of the Schuman Plan, the real object of which is to make the best use of the available industrial facilities in Europe. Similarly, the adoption of the Payments Scheme, permitting a freer flow of goods among Western European countries, should also prove helpful. In general, the war in Korea is showing the value of economic integration. Further integration will unquestionably be needed. For example, a greater mobility of labor is the next important problem to be tackled.

As important as the task of pushing European integration is the problem of combining our ECA aid with the proposed U. S. Defense Aid so as to make the best of the two, and to prevent conflicting expenditures. The Europeans must be made to understand that our resources are not inexhaustible and that there is a limit to the amount of taxes that this country can carry if it is to maintain a dynamic, aggressive, and efficient industrial organization making it possible for us to be the arsenal of the still-free world.

Integrate Marshall Plan with Arms Aid

With the dollar gap in the future likely to be restricted to countries such as Austria, Greece and Italy, there is no reason why the Marshall Plan could not be so slanted as to assist Western Europe with the defense programs primarily, thereby making some saving possible in the proposed $5 billion defense assistance. The hard-pressed American taxpayer cannot be expected to finance a greatly expanded defense program at home and the rebuilding of Western Europe's defense and civilian economy as well. The time has come to regard the Marshall Plan and the Defense Assistance as one unit.

Outlook for Motor Accessories under Mobilization

(*Continued from page* 575)

and aircraft specialties. Of half a dozen plants owned in the United States and Canada, the main one in Ohio was built by the Government in the last war for manufacture of aircraft parts by this company, and was purchased by Thompson Products in 1946. This facility is admirably suited to handle military orders on a greatly increased scale and chances are that they will now flow in rapidly. Additionally, the company has recently acquired the Ramsey Corporation, one of the largest makers of piston rings with an annual volume of $5 million, strengthening the already well entrenched trade position of the parent in the automotive parts field.

Although consolidated net sales of Thompson Products rose to $53.7 million in the first half of 1950 for a gain of about 7% over a year earlier, improved operating efficiency lifted net earnings to $7.42 a share compared with $4.63 in the same 1949 period, in both instances adjusted to the current number of shares outstanding. At midyear, the company reported net current assets of $42.5 million, including cash and Government bonds of $13.6 million, versus current liabilities of $10.8 million, thus facilitating the purchase of Ramsey Corporation on a cash basis. While earnings of Thompson Products were reduced during World War II, the company has paid dividends regularly since 1936, although at varying rates. The present rate of earnings will probably stand as a peak for some time, but provides a good cushion for any decline. The company recently lifted wages and arranged for pensions, while increased taxes will cut into net earnings considerably.

Cleveland Graphite Bronze Company enjoyed a large volume of business in the first half year, with sales rising about 23% compared with the year before, but increased costs held the gain in net earings to 13%, producing $2.68 per share. Over a long period of years, the operations of this company have been above average stable, and promise to continue so as a result of increasing diversification. Production of nu-

merous standard automotive parts in demand for both original and replacement use has been important, but the same held true for items essential for the farm equipment, diesel engine and electrical equipment industries.

Orders presently are continuing at high levels, sustaining operations in the company's main plant on a three-shift basis. The management points out that throughout World War II, the company's products were in urgent demand and will certainly play an important part again, commensurate with the scope of the military program. The shares of Cleveland Graphite Bronze are among the better grade equities in the auto parts industry.

In studying the record of various automotive parts manufacturers in the first six months, allowance should be made for some, such as Briggs Manufacturing Company, Motor Products, Young Spring & Wire, whose operations were temporarily affected by the long Chrysler strike. Labor unrest this year has also been a serious matter with many parts makers. Wage costs have mounted throughout the industry and will likely impinge upon earnings if volume tends to recede before many months.

Selection of shares in the accessories group should center on strong concerns enjoying broad diversification or in a position to serve the largest automobile manufacturers, while also enjoying well entrenched business in the replacement field. On the other hand, it is possible that military orders will be rather widely spread among a number of smaller concerns, enhancing their potentials under the changed conditions that lies ahead. In addition to some of the better grade shares we have discussed, others such as Eaton Manufacturing, Bendix Aviation and Clark Equipment should continue to do well under the military program.

Automobile Companies Looking to Tomorrow

(*Continued from page* 573)

All of which implies a narrowing of profit margins unless higher costs can be offset by higher selling prices, at this time a moot question. Looking beyond the year-end, the possibility of excess profits taxes in 1951 is clouding the longer range earnings picture, though it is anticipated that any new EPT will be more "streamlined"—less "tough" than that applied during the last war. However, since the future base for EPT has not yet been determined, it would be futile at this time to speculate about its impact. But in view of high postwar earnings, the industry could be rather more vulnerable to its impact than some others.

It is quite likely that because of the new conditions prevailing, the annual model change-over, due late in fall, will be either postponed or in some cases entirely dropped. Most likely in the more immediate future will be seen only such new models as were already under way when the war in Korea broke out. Thus new Packards have been slated for August but their appearance may be delayed by the strike. New Nash lines also will be forthcoming, according to trade reports, and new Hudsons are due late in September according to recent plans. Advance information indicates that the Packards and Hudsons will be substantially different from the 1950 models. But as far as the popular lower priced automobiles are concerned, new model introductions are improbable so long as current demand remains what it is.

According to the present outlook, prospects point to a gradual transition over many months with only moderate cutbacks before the year-end, unless steel allocations become very severe which at this writing appears unlikely. But even if current high production is not maintained during the fourth quarter, total 1951 earnings of most producers should still be excellent. A new high is indicated for General Motors and Chrysler earnings should recover smartly from the strike-affected poor first half results.

Results of most independents, while less favorable than those of the leaders, should also be excellent. Independent truck specialists which fared poorly so far this year but now can look forward to mounting military orders (some were already placed), should show considerable improvement over depressed 1949 and early 1950 results. Not only will unit volume be larger, but the price structure — formerly softened by keen competition — should firm under improved de-

mand conditions.

In the circumstances, larger dividends for the industry as a whole are indicated for 1950, not only because of excellent earnings but due also to lower capital needs which should permit a larger percentage of net to be paid out to stockholders. Recent dividend action of General Motors is a case in point, but also probably an outstanding one. General Motors during the first half earned $10.91 a share, of which $6.14 was accounted for by the second quarter. Two dividends of $1.50 each were paid in March and June. The record third quarter disbursement took the form of a regular dividend of $1.50 and a special dividend of $2.50, bringing total payments for the year to-date to $7 compared with $8 paid during all of 1949. It is thought that total 1951 disbursements may come as high as $10 or better, depending on developments later in the year.

Apart from cutbacks and EPT, which make longer range earnings projections hazardous at this stage, the question of defense orders is equally unclarified at this point. The automobile industry is confident that unlike during World War II, it can handle a substantial volume of war orders without unduly affecting normal output, provided adequate raw materials are available. A perhaps greater threat may eventually develop because of mobilization drains on the labor market. To the extent that overtime work, employment of women or older workers plus greater efficiency can offset any such drain, the industry should be able to handle a dual program without great difficulties.

Defense orders of course carry smaller profit margins; from a compensatory standpoint therefore they cannot fully replace any curtailment of regular business even if they are promptly available. However, high demand for cars and the prospect of only moderate cutbacks should cushion any future earnings decline. Under all-out war conditions, the situation of course would be radically changed and the industry's role would be not unlike that it performed during World War II, when after a lengthy conversion period it became the nation's foremost war producer.

Following a much better than average performance since mid-1949, automobile shares fell off sharply in the recent war-scare market but more recently recovered fairly smartly on more sober appraisal of industry prospects in a semi-war economy. Excellent second quarter earnings aided the recovery trend. Nevertheless, the shares of most car builders are still conservatively appraised on basis of prospective earnings, at least over the medium term.

Thus General Motors is currently selling barely five times estimated 1950 earnings, and based on anticipated 1950 dividends of $10 yields over 10%. High yields generally prevail elsewhere as shown in the appended tabulation (based on 1949 dividends). Thus even if 1951 profits should be substantially lower, yields would still be ample in most cases. This is particularly true of General Motors, for which a two-for-one split has been proposed in June; and also of Chrysler which recently upped its quarterly dividend rate from $1.50 to $1.75 a share. On the latter basis and at latest price, the stock would yield better than 10%.

Among the independents, Studebaker appears the most promising. The stock is not overpriced relative to indicated earnings over the medium term and there is every prospect that the company will be able to maintain its postwar gain in the automobile market. On basis of the new $3 dividend rate, this stock, too, yields around 10%, thus holds a similar cushion against any future narrowing of the yield rate, should cutbacks and taxes result in lower earnings and dividends.

Sound Stocks in Peace or War

(*Continued from page* 561)

seem more promising than for the average industrial issue regardless of the course of international developments. Adequate facilities for synthetic supplies have removed fears over raw materials. Demand tends to expand in line with military requirements for motorized equipment. Experience in the recent war points to relatively high earnings and a potential acumulation of civilian demand.

Firestone Tire & Rubber is typical of the group—except that unlike other manufacturers, this company retails a part of its output through a chain of auto supply stores. The company reported net profit of $6.68 a share for the first half of its fiscal year and may earn $14 a share for the fiscal year ending October. Such a showing promises ample coverage for the $4 dividend yielding about 5½ per cent.

Tobacco companies no doubt qualify for consideration inasmuch as cigarette consumption tends to accelerate under war conditions and inventories of aged tobacco appreciate in value in reflecting a scarcity factor. Price ceilings ordinarily hold down profit margins, but this adverse

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influence is minimized in part by reduced sales promotion effort and an ability to direct demand to higher priced lines. Increased volume also permits of operating economies.

Philip Morris, which experienced outstanding growth in the last war, is a representative issue in this industry. Sales in the June quarter showed a much better-than-average gain of almost 20 per cent over the corresponding three months of 1949. Net profit for the quarter, first of the current fiscal year, was estimated at $1.85 a share on the increased capitalization compared with equivalent of $1.50 a share in the June quarter last year on basis of stock now outstanding. The shares afford a generous return of more than 8 per cent on the indicated $4 annual rate, including a year-end extra dividend of $1 a share.

President's Economic Advisers Planning Socialistic Economy?

(*Continued from page* 563)

pet projects, everybody is for economy until it strikes close at home; then any thought of economizing is promptly buried.

To return to the field of production, the need for boosting output in certain areas is admitted. Unlike some measures which can be delayed until the immediate need is greater, the production problem must be tackled before the need becomes critical. Hence the President's request for immediate action on a program of guarantees and loans for capital expansion, development of technical processes, and production of essential materials. Like the President, the Council of Economic Advisers has urged that the nation must produce more and more, not only for the war effort but to keep pace with the growth of the nation.

Still, in carrying out any such program, care should be taken to consider the country's real productive needs rather than use it to fight "bigness" or to attain some other socialistic objective under the guise of promoting national defense. To prevent the latter, Congress would do well to make the grant of authority specific and to make clear its intent that no ulterior Fair Deal motives should be fostered.

Administration planners have frequently harped on alleged inadequate capacity for steel, electric power etc. Steel is extremely tight, to be true, but not because of defense needs which so far have hardly entered the picture. Today's raw steel capacity is in excess of 100 million tons, and five million tons additional capacity is scheduled for completion within the industry by the end of 1952, two million thereof by the end of next year. This would seem to be about all the capacity expansion practical under foreseeable conditions.

It would be senseless and wasteful to force steel expansion to a point where the needs of a total war plus those of an explosive civilian demand situation could be fully met. Even the military estimates that with the new rearmament program included, military needs for steel will be no more than 5% or 6% of the nation's current production. It would fly in the face of every concept of American enterprise to virtually force nationalization of the steel industry in the name of assuring such a relatively small additional requirement which can easily be met by moderate cutbacks of unessential civilian manufacture.

Or take electric power where, in planning for mobilization, there is much talk in official circles of an impending shortage. Any appraisal of potentials is a proper precaution, but it seems there is also an element of political rather than defense planning in this concern over power capacity. There is reason for doubt that even an unprecedented wartime demand would find existing facilities inadequate.

Nevertheless, there are already attempts to induce Congress to appropriate larger funds to push construction of planned hydroelectric projects. Even discounting the fact that new construction will take more time than we could afford in any real emergency, the big question is whether any such expansion is really needed, and if so, whether it should not better be undertaken under private sponsorship. Thus while it is well to evaluate our power potential, before the public is asked to finance any more huge public power projects, it must be assured that the expenditure is necessary for our defense needs, and that the project can be completed in time to be of use for defense. Big power projects usually take years; they cannot be completed in short order.

Altogether, we must expect that the question: Is productive capacity rising fast enough? will come increasingly to the fore as the defense effort moves into high gear.

There is nothing wrong, of course, with the thought of an expanding economy, especially if it is a natural process. Certainly there can be no indifference towards the growing needs of today, and of the future as well. Rather there is great need for our economy to realize its full potential, and for our country to realize the need for maximum power in order to safeguard our security and that of the free world. But while it is not a time for "business as usual," it is also not a time for "politics as usual" or for using the emergency to push us into a socialist state.

Gauging Impact of New Taxes on Company Earnings

(*Continued from page* 558)

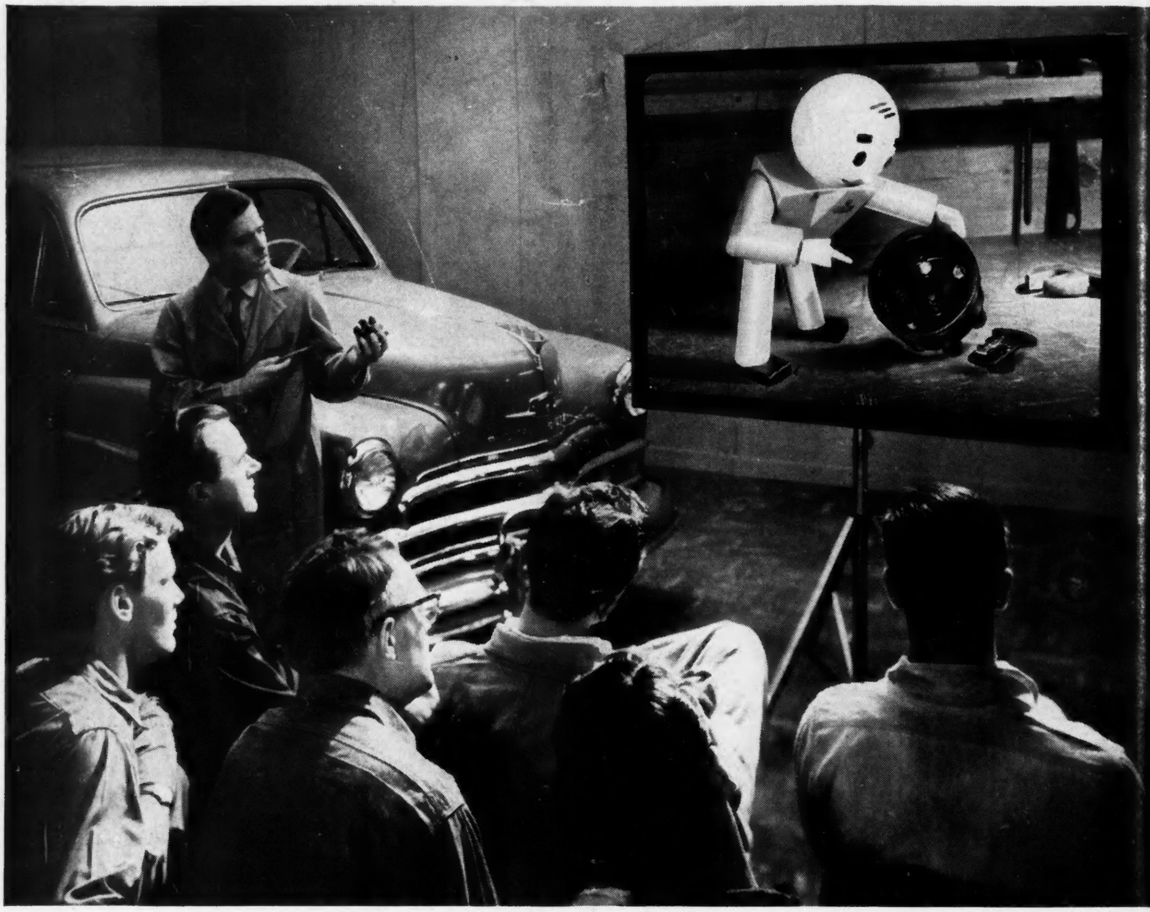
templated.

Still, another EPT must be reckoned with if only to ease political rather than economic pressures, lest the Administration be accused of "drafting men without drafting profits." Because the probability of EPT is real, it would be logical to expect yields to continue high so as to provide a cushion against the subsequent EPT impact. And because the latter will be anything but uniform, numerous cross currents must be expected to feature the market until potential effects are clarified and proper adjustments to the new earnings and dividend potentials made.

As I See It!

(*Continued from page* 553)

each man one wish. When Stalin was asked what he wanted, he said: "The destruction of the United States." Mr. Truman's wish was that Russian communism be destroyed. When it was Mr. Atlee's turn, he spoke up quickly and said: "Take care of these two gentlemen first—I can wait." This of course is merely a popular joke, but some think it is not without a point.



Master Technicians Service Conference—created by practical imagination at Chrysler Corporation

"Professor" Tech has 62,000 students!

That figure on the screen is "Tech," the star of a unique talking film — one of a series teaching automotive service men the newest and most efficient ways of caring for Plymouth, Dodge, De Soto and Chrysler cars, and Dodge trucks.

These films have been used regularly for nearly three years by Chrysler Corporation dealers throughout the country. First they explain the latest methods of "diagnosis"— for speedy, economical service work depends on knowing exactly where to begin. Then the latest factory-approved methods of making adjustments and repairs are shown, as if a factory "car clinic" were in town.

After the show, the same work is demonstrated on an actual car. Then the automotive service men do the job themselves — learning new skills that mean better, money-saving service work for *you*.

More than 62,000 Plymouth, Dodge, De Soto and Chrysler automotive service men are taking this course — post-graduate technicians, ready to help owners get *all* the long life and enjoyable driving built into our cars.

This great training program is another example of the way practical, creative *imagination* works at Chrysler Corporation to make our cars serve you better. It's an important reason why owners enjoy such year-after-year *satisfaction* with their Plymouth, Dodge, De Soto and Chrysler cars.

Want to keep your car running its best? Specially trained service men are ready to help you at Plymouth, Dodge, De Soto and Chrysler dealers in every part of the country. Their skills can save you time and money on adjustments or repairs.

PRACTICAL *Imagination* MEANS BETTER SERVICE

CHRYSLER CORPORATION

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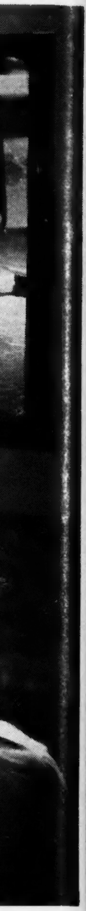
Airtemp Cooling, Heating, Refrigeration **Chrysler** Marine & Industrial Engines **Dodge** Job-Rated Trucks **Oilite** Powdered Metal Products **Mopar** Parts & Accessories **Cycleweld**



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